THE FIRST BANK OF THE UNITED STATES

A THESIS

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The establishment of the Bank of the United States in 1791 was an essential and vital part of the general scheme for the support of public credit proposed by Alexander Hamilton, first Secretary of the Treasury. The institution of a national bank Hamilton regarded as "an indispensable engine in the administration of the finances." [a]

Hamilton's Plan of 1779.

This conception of the utility of a bank was not a matter of impulse or sudden exigency. As early as 1779, Hamilton wrote to Robert Morris favoring a bank of issue based on landed security.[b] Later, in 1780, when the Revolutionary finances were at low ebb and the currency of the country was demoralized, Hamilton, then serving in the army, wrote to Morris discussing the financial situation thoroughly and proposing measures of relief. "The only plan that can preserve the currency is one that will make it the immediate interest of the moneyed men to cooperate with the Government in its support." He proposed an American bank with a capital of $200,000,000. His project contemplated a foreign loan of $10,000,000 "to be thrown into the bank as a part of its stock." The Government was to guarantee one-twentieth of the subscription money to the stockholders, and was itself to share half the stock and profits of the bank. All the

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[a] Hamilton's Report on Public Credit, December 13, 1790.
[b] Hamilton's Works (Hamilton), Vol. I, p. 116.

remaining paper was to be called in and bank notes issued in its stead. The bank was to lend Congress £2,000,000 annually at 4 per cent. Hamilton questioned the necessity of so large a capital, but he wished to have it large enough "to engage a sufficient number of the principal moneyed men in the scheme." This "hasty production" of Hamilton's was the result "of some reading on the subjects of commerce and finance," but in the ten years which intervene before Hamilton's great project for a national bank materializes his ideas on the subject undergo considerable change.

HAMILTON'S PLAN OF 1781.

On April 30, 1781, Hamilton, whose mind ran constantly to questions of government and finance, wrote again to Morris, who had recently been appointed Superintendent of Finance.[a] Hamilton had great respect for Morris, and he was eager to render him every aid possible. In this letter, discussing ways and means of raising revenue, Hamilton renews his suggestion of a national bank. He proposes a bank with a capital of £3,000,000 (though he thought it would succeed if only half that amount were obtained) founded in part upon landed security. Thus a subscriber of from 6 to 15 shares (£500 each) should pay one-half in specie (or plate or bullion), the other half in good landed security. Subscribers to 16 shares and over should pay one-third in specie, one-sixth in foreign bills of exchange, and one-half in good landed security. Hamilton recognized that to procure so much specie resort would have to be made to foreign assistance, for he esti-

[a] Hamilton's Works, Vol. I, p. 223; Dunbar, Economic Essays, pp. 89–90.

mated that in all of the States there was not more than $6,000,000. The United States, or a particular State, or foreigners might subscribe in sums not to exceed one-half the capital. The notes were to be payable in pounds, shillings, and pence "to produce an illusion in the minds of the people favorable to the new paper," or rather to escape by a change of nomenclature the universal prejudice against the old continental currency, which was payable in dollars. Notes under 20 shillings were to bear no interest; above that sum they were to bear 4 per cent. This latter device was to give them preference over specie, and prevent a run upon the bank. Gradually the interest was to be reduced to 2 per cent. Some of the notes were to be payable in Europe as well as at home, so as to enable the bank to use its funds there and to increase the demand for bank notes by making them useful in foreign commerce. Loans were to be made at a rate not above 8 per cent. The bank might purchase estates and coin money to the amount of half its capital. This latter provision was necessary because the bank might receive plate or bullion as subscriptions, and profit might result from converting these into coin. The bank was to have the right to contract with the French Government for the supply of its armies and fleets in America and to contract with Congress for the supply of its armies. A loan of £1,200,000 at 8 per cent was to be made to Congress, for the payment of which a sinking fund of £110,400 per year was to be established for twenty years, and the States generally and severally were to pledge themselves for its payment. The bank was to be chartered for thirty years "by way of experiment," and no other bank was to be permitted during that period. Three agencies were to be established, one each in Massachusetts, Pennsylvania, and Virginia, to facilitate the circulation and payment of the notes. Hamilton thought they should be located in the interior, distant from the leading trading centers, so as to "make applications for the payment of bank notes less convenient." The management of the bank was to be in the hands of 12 directors, 8 to be chosen by the stockholders and 4 by Congress. Commenting upon this proposed plan, Hamilton says that if the leading principles of his scheme be approved, "the structure may easily be determined. We shall find good models in the different European banks, which we can accommodate to our circumstances."[a]

Hamilton later came to realize that land was not the proper security for bank notes. In 1784, Chancellor Livingston, of New York, fathered a project for a land bank in that city, and application was made to the state legislature for an exclusive charter. Hamilton, by this time thoroughly convinced of the folly of such an enterprise, started an agitation for a bank founded on a more solid basis.[b] Out of this movement grew the Bank of New York, the constitution of which was drawn by Hamilton himself.[c] Hamilton became a director of the bank, and, though this relation was severed in 1788, he always showed a lively interest in its prosperity, and threw many favors in its way, when that was legitimately permissible, during his

[a] Many of Hamilton's suggestions were incorporated in Morris's report to Congress recommending the establishment of the Bank of North America.—Knox, History of Banking, p. 40.

[b] Hamilton to J. B. Church, March 10, 1784.

[c] Domett, Bank of New York, p. 11.

administration of the federal finances. In return, the directors of the bank were prompt to respond when called upon to assist the Government with temporary loans. For several years the Bank of New York carried on business under the articles of association drawn by Hamilton, but finally, after repeated failures, it secured a charter as an incorporated concern, March 21, 1791. At that time Hamilton held one and a half shares of its stock (par $500).[a]

Hamilton's Report in 1790.

In December, 1790, Hamilton submitted an elaborate report on the subject of a bank to be founded under a national charter. He clearly appreciated the popular prejudice against the establishment of banks, and consequently devoted a large part of his argument to the defense of banking institutions and a bank-note currency. He anticipated possible objections by noting the successful experiences of public banks among the principal and most enlightened commercial nations of the world. In those countries the experience of centuries showed that such banks rendered invaluable service both to the Government and to trade. The Government of the United States, too, not only in the critical period of the recent war, but also in times of peace, had received from the banks indispensable aid. His discussion was undoubtedly the most informing and illuminating presentation of banking principles and practice known to American literature up to that time. It did much to remove misunderstanding regarding banking institutions, and incidentally it furnished an arsenal

[a] Domett, Bank of New York, p. 132.

of arguments for the defense of the proposed bank in the debates which followed in Congress.

The first advantage which Hamilton claims for the bank is "the augmentation of the active or productive capital of a country." He means by this not the creation of additional capital, but more effective utilization of capital by which scattered and otherwise idle amounts are concentrated and made to serve the uses of business. He states that the great proportion of the notes issued are "indefinitely suspended in circulation;" "that large sums are transferred by check" without the intervention of a single piece of coin; "that deposits for safe-keeping as well as for accommodation" form an "effective fund" for the operations of the banks, for, even if they are withdrawn, they are speedily replaced, as money "much oftener changes proprietors than place," and not only is the quantity of money increased, but its circulation is "quickened." Without notes coin must be remitted from place to place with "trouble, delay, expense, and risk." Bank notes, however, can be transmitted by post or other convenient conveyance. With their use, therefore, the metals are not "suspended from their usual functions during this process of vibration from place to place," but "continue in activity."

Hamilton laid great stress upon the advantage of a bank in making loans to the Government, especially in sudden emergencies, and in facilitating the payment of taxes. This latter benefit had been demonstrated in places where banks already existed. These governmental advantages were, doubtless, foremost in Hamilton's mind. A national bank to him was not "a mere matter of private property, but a political machine of the greatest importance to the state." Thus conceived as a political machine, the Bank of the United States never threw off entirely its political trappings, and it finally died as the result of political enmities and jealousies.

The most serious charges against banks were that they served to increase usury; they tended to prevent other kinds of lending; they furnished temptations to overtrading; they afforded aid to ignorant adventurers who disturbed the natural and beneficial course of trade; they gave to bankrupt and fraudulent traders a fictitious credit, enabling them to maintain false appearances and to extend their impositions; and they tended to banish gold and silver from the country. Hamilton reviewed these charges and either refuted them or opposed counterbalancing advantages.

Hamilton concluded the introduction to his national-bank scheme by arguing strongly against the issue of paper by the Government and in favor of bank issues payable in coin.

Having demonstrated the desirability of a national bank, Hamilton next considered the possibility of utilizing one of the three existing banks—the Bank of North America, in Philadelphia, the Bank of New York, and the Bank of Massachusetts. He considered only the Bank of North America, the only one of the three which had had at any time a direct relation to the Government. While paying willing tribute to the great services of that bank to the United States during the Revolution and the aid it had extended after the war, he reasoned that it lacked certain of the essential requisites of a national bank. This bank, chartered originally by the Continental Congress, had afterward accepted and acted under a new charter from the State of Pennsylvania, which greatly narrowed its scope. The original capital was $10,000,000, but this had been reduced in the state charter to $2,000,000, which would not insure "the requisite aid to the Government nor the requisite security to the community." Another objection raised by Hamilton was that the charter of the Bank of North America did not provide for rotation in the board of directors. This principle he regarded as essential in that it would lessen the danger of combinations among the directors to use the bank's influence for partisan purposes or to monopolize its funds for the accommodation of any particular set of men or interests. Danger of a monopolization of the power and benefits of the bank lay, also, in the principle of one share one vote recognized in the charter of the Bank of North America. And, finally, that bank did not guard against the influence of foreigners by prohibiting them from becoming directors or voting by proxy. If, however, that institution should be willing to make such changes as were "necessary to the due extent and safety of a national bank," every reasonable facility should be offered it to do so, not only because of its earlier relation and services to the Government, but also because its cooperation would remove the possibility of a collision of the two institutions. The Bank of North America, however, showed no disposition to undertake the reorganization which would have been necessary to bring it into accord with Hamilton's plan. "The quiet and prosperous business in which they were engaged, under state auspices, was to them preferable to the anxieties and hazards which would probably attend the new national undertaking."[a]

ESTABLISHMENT OF THE BANK.

The bill to charter the Bank of the United States was introduced in the Senate December 23, 1790, and was debated there until January 20, when it was transmitted to the House. On January 31 the House went into Committee of the Whole for the consideration of the bill. It was opposed by Madison and 18 others, all of whom, with one exception, were members from the Southern States. The debate was concentrated largely upon the question of the constitutionality of the proposed bank.[b] Madison and his supporters assailed the constitutional authority of Congress to incorporate a national bank. He argued that the question of authority to incorporate a bank had arisen in relation to the Bank of North America under the old Confederation and that the constitutional convention had specifically refused to include among the powers of Congress that of incorporation, because this might be construed to confer power to establish a bank. The advocates of the bank, however, met this argument with the claim that there was nothing particularly awe-inspiring or sovereign about acts of incorporation; that the erection of a bank was merely an act of legislative expediency, clearly included in the implied powers of Congress under the Constitution.

[a] Lewis, History of Bank of North America, p. 79.

[b] Clarke and Hall, Legislative and Documentary History of the Bank of the United States, pp. 36–85.

After a week's debate the bill was passed, February 8, by a vote of 39 to 19. This was not a strictly party vote, for 11 of those who voted for the bank were Democrats, while 6 Federalists voted against it; but it afterwards became "one of the landmarks of party, and in the Second Congress a resolution declaring the bank charter unconstitutional was within one vote of passing the House." [a]

As the bank bill reached its final stages numerous attempts were made to limit the scope or the life of the proposed institution. A motion in the Senate to expunge the section providing that no other bank should be established by the United States was defeated. [b] Another motion to add a clause that nothing should prevent Congress from abolishing the corporation after May 4, 1802, was likewise voted down. [c] On January 13, 1791, a motion to limit the term of the charter to seven years was met by another motion to extend it to March 4, 1815, both of which were postponed. [d]

The bill was presented to the President February 14, 1791. Washington gave it anxious and diligent consideration. The question of its constitutionality, which had been the chief ground of controversy and opposition in Congress, was carefully considered by the President. To aid him in reaching a sound decision, he asked three of his cabinet advisers for their written opinion. The Attorney-General (Randolph) and the Secretary of State (Thomas Jefferson) argued against the constitutionality of the bank, but Hamilton, Secretary of the Treasury, to

[a] Gouge, Paper Money and Banking, p. 38.
[b] Annals of Congress, Vol. II (1789–1791), p. 1748.
[c] Ibid., p. 1769.
[d] Ibid., p. 1745.

whom these opinions were submitted by Washington, swept away their arguments so completely that Washington signed the bill, February 25, 1791.[a]

Charter Provisions.

The bill provided for a Bank of the United States to be located in Philadelphia with a capital of $10,000,000, divided into 25,000 shares of $400 each. One-fourth of all subscriptions, private and corporate, was to be paid in specie, and three-fourths in United States stock bearing 6 per cent interest, payable in four equal semi-annual payments. The President of the United States was authorized to subscribe, on behalf of the United States, $2,000,000, a loan of equal amount to be made by the bank, which was to be reimbursed in 10 equal annual installments. No subscription other than that of the Government was to exceed 1,000 shares. There were to be 25 directors, not more than three-fourths of whom were to be eligible for reelection the next ensuing year. Seven directors were to constitute a quorum. No stockholder, unless a citizen of the United States, could be a director. The directors were to elect a president who was to receive a salary, but they were to serve without compensation. No foreign stockholder might vote by proxy. One share was to have 1 vote, 3 shares 2 votes, 5 shares 3 votes, and so on until 100 shares had 20 votes. The bank was allowed to issue notes, payable to any person or persons, assignable and negotiable, or to bearer assignable by delivery. The notes were legal tender in payment of all debts to the United States.

[a] Works, Vol. IV, p. 104.

The maximum amount of debts which the bank might owe at any time, except for moneys deposited for safe-keeping, was never to exceed $10,000,000, unless the contracting of such debts was authorized by Congress, and in case of excess the directors under whose administration it occurred were to be personally liable for the amount. The bank was forbidden to buy or sell goods except forfeited collateral, under penalty of forfeiting three times the value of the commodities, one-half of the forfeit to go to the informer, the other half to the United States. It might sell but not buy United States stocks (bonds). It was permitted to hold only such real estate as was necessary in the immediate accommodation of its banking business or such as had been mortgaged to it as security or conveyed to it in satisfaction of debts previously contracted in the course of its dealings or at sales upon judgments obtained for such debts. The bank was not to loan to the United States more than $100,000, nor to any State more than $50,000, nor make any loan to a foreign prince or State, unless previously authorized by act of Congress. Loans and discounts were not to be made at a rate above 6 per cent. The directors were permitted to establish offices for discount and deposit only wherever they should think fit within the United States. A report of the condition of the bank was to be furnished to the Secretary of the Treasury at his demand, but not oftener than once a week, and that officer had the right to inspect the books, except private accounts. The charter was to expire March 4, 1811, and during the continuance of the corporation no other bank was to be established by the United States. The bank might begin operations when $400,000 had been paid in gold and silver.[a]

On March 20, 1791, a supplementary bill was passed providing that subscriptions should not be opened until the first Monday in July, thus affording three months longer to allow citizens in distant parts of the country to subscribe. This bill also provided that payments in the United States 3 percents might be subscribed as well as the 6 percents, computing the former at one-half the latter, and reserving to subscribers the right to redeem the threes with sixes any time before January 1, 1793; that the specie proportion was to be paid at the time of subscribing, failure to make future payments forfeiting the first payment; and that no person or corporation, except on behalf of the United States, should, for three months after July 4, subscribe in any one day for more than thirty shares.

It is to be noted that the bank was to be under private management. In this, as Dunbar points out, Hamilton followed English rather than continental precedent. "This independence of the Executive he secured by forbidding loans of serious amount for the use of the Government, unless specially authorized by law."[b] A comparison of the Bank of England act of 1694 and the United States Bank act of 1791 shows, moreover, that a careful study had been made of the English institution. The powers of the banks, relating to the scope of the business, were practically identical. "In each the redemption of notes in specie was required, and the amount of the issue

[a] For full text of the bank bill, see Appendix A.
[b] Economic Essays, p. 91.

was limited in the charter of the Bank of England by forbidding debts in excess of the capital, and in the charter of the Bank of the United States by forbidding the debts exclusive of deposits to exceed the capital."[a]

Subscriptions for Stock.

Under date of May 3, 1791, the commissioners appointed to receive subscriptions gave notice in the newspapers that the books would be opened for that purpose at the Bank of North America, in Philadelphia, July 4.[b] The commissioners included some of Philadelphia's leading business men—Thomas Willing, Beale Bordley, David Rittenhouse, Samuel Howell, and Lambert Cadwalader. Active interest in subscriptions to the stock developed at once all over the country, but especially in New York and Boston. In the latter city the Bank of Massachusetts received subscriptions, and in New York the Bank of New York had to refuse many who wanted to subscribe. In Boston it was said that subscriptions for 2,400 shares were filled in four days, and a specie deposit of $60,000 was paid into the Bank of Massachusetts.[c] Similar interest was shown in Baltimore, Richmond, and Charleston. In Charleston the Chamber of Commerce instituted steps to secure a branch of the bank in that city, and resolutions were adopted inviting the people of South Carolina, by public advertisements, to subscribe for stock. Under date of June 2, 1791, certain public-spirited citizens of Charleston announced in the papers that they would receive and transmit subscriptions

[a] Economic Essays, p. 92.
[b] General Advertiser, May 13, 1791.
[c] Dunlap's American Daily Advertiser, June 30, 1791.

and urged haste, saying that in the North subscriptions were pouring in so fast that Charleston might be left out unless they subscribed at once. They estimated that annual profits on the stock would amount to 8 or 10 per cent. At the end of June it was reported that South Carolina had already subscribed 1,000 shares and that a part of the specie deposit had been deposited in the Bank of North America.[a] Commenting upon this interest in the new bank, the Daily Advertiser said: "The Bank of the United States may justly be considered as a proposition made to the moneyed interest, foreign and domestic, and in fact appears to both in a very favorable point of light—the latter, from every information, are making great preparations to subscribe, and the terms are so advantageous that no equal object of speculation is perhaps presented in any quarter of the globe to the former."[b] Subscriptions continued to pour in from all quarters. A long debate in the Massachusetts legislature on the proposal to subscribe for 400 shares was defeated. The Bank of North America, the only bank in Philadelphia at that time, might naturally have resented the intrusion of this new giant in the local banking field, over which for years it had held undisputed sway, and by some it was thought that "the jealousy and rivalry drawn from the existence of the Bank of North America" might prevent the moneyed men of Philadelphia from participating to their proportionate quota in the subscriptions to the new concern.[c] Later

[a] Dunlap's American Daily Advertiser, June 9, 24, 1791.
[b] Ibid., May 9, 1791.
[c] General Advertiser, June 24, 1791.

developments, however, disclosed the fact that Philadelphians were as eager to participate in the benefits and profits of the new bank as were the people of any other section, while the Bank of North America evinced a lively interest in the welfare of the new institution, with which it worked harmoniously from the outset.

On July 4 the subscription books were opened in Philadelphia, and within two hours the entire capital of 25,000 shares was subscribed and application was made for 4,000 additional shares.[a] The commissioners, accordingly, were compelled to deduct a certain proportion from every subscription. In some quarters there was "lament that Philadelphians have engrossed so much of the stock and have so divided the shares as to multiply their notes. They believe that there was management and partiality in the commissioners."[b] Immediately a violent speculation sprang up in bank stock or "script," as it was called. Two days after the subscription books were closed $35 was paid for a right to the certificate which the commissioners were to deliver, acknowledging receipt of the first cash payment of $25, and within a week sales were made at $50.[c] Brokers' offices sprang up on all sides advertising the purchase and sale of bank script. The New York Daily Advertiser, in warning the public against speculators, notes that the stock under speculative manipulation rose in August, 1791, to 56, then dropped to 45, "from 45 to 60, from 60 to 100 in two days, from 100 to 150 was the leap in a single day." It was claimed

[a] Gibbs, Administrations of Washington and Adams, Vol. I, p. 68.
[b] Fisher Ames to Hamilton, July 31, 1791, Works, Vol. V, p. 473.
[c] General Advertiser, July 6, 8, 1791.

that the interests of agriculture, commerce, and manufactures suffered by the withdrawal of considerable sums of specie with which to speculate in bank script.

ORGANIZATION.

The work of organization proceeded very slowly, and it was not until October 7 that a meeting of the Philadelphia stockholders was called to select a committee to meet like committees of other States to propose names of directors.[a]

On October 21 a general meeting of the stockholders was held in the city hall, Philadelphia, and 25 directors were chosen. Ten of the directors received 2,936 votes each, and the lowest vote cast for any director was 2,920.[a] The directors met October 25 to select the officers of the bank. The presidency was offered to Oliver Wolcott, at that time serving as Comptroller of the Currency under Hamilton, but he declined it, "preferring the public service, and believing that such a station would be deemed unsuitable for a young man without property."[b] Thomas Willing, president of the Bank of North America, and formerly a business partner of Robert Morris, was then made president, a position which he retained until 1808. Willing was, by social position, business talent, and experience in public affairs, remarkably well qualified to assume the responsible position of president of the most powerful financial concern in the country. He had wide business experience as partner in the prosperous business of Morris & Willing and as president of the Bank of North

[a] General Advertiser, October 21, 1791. [b] Gibbs, Vol. I, p. 68.

America. He had served successively as secretary to the congress of delegates at Albany, judge of the supreme court of Pennsylvania, mayor of Philadelphia, member of the Colonial Assembly, president of the Provincial Congress, and delegate to Congress under the Confederation. He thus enjoyed a wide acquaintance with public men and affairs.[a] The appointment of Willing as president did not meet with general satisfaction. In Boston, for example, it was feared that he might be dominated by men like Robert Morris, a powerful influence in the affairs of the Bank of North America, who was regarded in the East as a desperate speculator and as "a man of talents and intrigue."[b]

With the selection of a president, the business of organization proceeded more rapidly. John Kean was appointed cashier, with a salary of $2,700, and George Simpson, first teller at $1,500. There was a second teller at $1,000, a first and second bookkeeper at $1,000 and $800, respectively, a discount clerk at $750, an assistant clerk at $600, and a runner at $600. Some of the papers reported that President Willing's salary had been fixed at $3,000, but the General Advertiser denied this, remarking that the president's salary could not be fixed by the directors, but only by a general meeting of the stockholders. Later his salary was fixed at $3,000.[c] The records of the Bank of North America show that, a few years later, the salary of the president of the Bank of Pennsylvania was $3,000, while the Farmers and

[a] Simpson, Lives of Eminent Philadelphians, p. 960.
[b] Ames to Hamilton, Works, Vol. V, p. 474.
[c] Minute book, Bank of North America.

Mechanics' and the Bank of North America each paid $2,500 to their respective presidents.

By-Laws and Regulations.

At a general meeting of stockholders, held in City Hall, October 28, 1791, a committee of seven was appointed to draft by-laws and regulations for the bank. A month later the committee submitted its report. The by-laws as adopted provided that the bank should be open every day in the year excepting Sundays, Christmas, and July 4. The books were to be kept in dollars and cents, and were to be balanced the first Monday in January and July, when the semiannual dividends were to be declared and published in four newspapers. The bank was to take charge of the cash of all who cared to deposit it there, free of expense, and keep it subject to their order, payable at sight; also to receive deposits of gold ingots, silver bars, wrought plate, or other valuable articles of small bulk. It was to receive and pay all specie coins according to the rates and value fixed by Congress. Until the contemplated offices of discount and deposit should be established, there were to be two discount days each week, at which times a meeting of the board of directors was to be assembled. Discounts were to be made at such rates, not less than 5 per cent or more than 6, as the board should deem proper "on bills of exchange that have not more than sixty days to run, and with such securities and under such modifications" as the board should deem satisfactory and expedient. The president was authorized to convene the board on special occasions and to affix the seal of the bank to all conveyances and documents. A committee of at least three of the directors was to be elected by ballot monthly to visit and inventory the vaults to see that the cash agreed with the books. The bank was to issue no notes or bank paper except by direction of the board. It was further provided that if the directors should declare a dividend above what the profits justified, thus diminishing the capital, the assenting directors should be responsible therefor. The board was authorized to receive the money subscribed from the commissioners. They were to determine how the balance of the stock should be paid in and to establish forms for stock transfers, dividend receipts, proxies, notes, etc. They were to establish a seal and fix the duties of the officers. The directors were empowered to make loans to the Government or to any State, but the assent of a majority was required. They were also empowered to purchase a lot and erect a bank building thereon.[a]

On November 22, 1791, the following bank regulations were adopted and published for the information of stockholders and customers: The bank was to be open from 9 to 4. The discount rate, "for the present," was to be 6 per cent. The charter of the bank fixed that as the maximum interest rate.[b] Bills or notes offered for discount were to be delivered at the bank Mondays and

[a] Daily Advertiser, November 14, 1791.

[b] Fisher Ames thought that if the rate were made 5 per cent the bank would do more business and with safer people. By giving better terms to borrowers the bank would overpower the state institutions, which he feared might become unfriendly and through hatred and rivalry narrow the business of the United States Bank, and, perhaps, become dangerous instruments in the hands of state partisans.—Ames to Hamilton, July 31, 1791, Works, Vol. V, p. 474.

Wednesdays and presented to the directors on Tuesdays and Thursdays. The results of their action were to be known on the next succeeding days—that is, borrowers submitting paper for discount were apprised of the result two days later. After the bank got under way, this rule was changed so that bills and notes for discount were presented on Mondays and Thursdays.[a] Discounts were to be made on personal security only, with at least two responsible names—that is, double-name paper—and were limited to sixty days. Three days of grace were allowed on all bills payable to the bank, interest being charged for the same. The bank would present without charge bills or notes left for acceptance, provided that in case of non-payment and protest the protest charges should be paid by the person lodging the bill. Payments made over the counters of the bank were to be examined at the time, and no errors were to be corrected afterward. The regulations also prescribed and set out in detail the forms for voting by proxy at elections, for transferring stock, and similar forms.[b]

PAYING IN OF CAPITAL.

December 12, 1791, ten months after receiving its charter, the bank opened for the regular transaction of business. It is assumed that the prescribed amount of specie, $400,000, necessary to begin operations had been paid in. Sumner says: "The belief at the time, and subsequently, was that no more than the specie part of the first installment ever was paid into the bank in specie."[c]

[a] Daily Advertiser, January 3, 1792.
[b] Ibid., November 22, 1791.
[c] History of Banking in all Nations, Vol. I, p. 33.

Bollman, writing in 1810, said: "No more or little more than the first installment, $675,000, can be considered as having been received by the bank actually in hard money."[a] In a debate in the Pennsylvania legislature in 1793, it was stated that one great source of profit to the Bank of the United States when it was first established was in the discounting of notes for stockholders, to enable them to pay subsequent installments. No one seemed sufficiently informed or inclined to defend the bank from this charge, and in the light of facts bearing upon this dangerous practice in the organization of other banks it seems probable that the charge was not groundless.[b] To facilitate the payment of the second installment of specie, due in January, 1792, the bank arranged with the Bank of Massachusetts and the Bank of New York to receive the payments. The cashiers of these banks issued receipts or certificates which were accepted by the Bank of the United States as evidences of payment. Further, the bank encouraged stockholders to prepay the remaining installments by allowing full-paid shares to draw dividends from the first of the month following such payments.[c] Arrangements were made whereby the specie portion of the third installment, due in July, 1792, might be made at the bank or any of its branches, while transfers of United States stocks might be made on the books of the Treasury or at the office of the commissioners of loans. The transfer books were closed for two weeks prior to dividend days—July 1 and January 1. Though the major part, probably, of the shares were not fully

[a] Paragraphs on Banks, p. 35.
[b] House Journal (Pa.), 1793–95, Vol. III, p. 180.
[c] Daily Advertiser, March 24, 1792.

paid in until the end of 1792, dividends were declared in July, 1792. Shares completed in March received $12, in April $10.67, and in May $9.33.

PAYING IN OF CAPITAL BY THE GOVERNMENT.

The proposal to permit the President to subscribe $2,000,000 on account of the public was obviously to secure a share in the profits of the bank.[a] Hamilton explained that the main design of this provision was "to enlarge the specie fund of the bank, and to enable it to give a more early extension to its operations. Though it is proposed to borrow with one hand what is lent with the other, yet the disbursement of what is borrowed will be progressive, and bank notes may be thrown into circulation instead of the gold and silver. Besides, there is to be an annual reimbursement of a part of the sum borrowed, which will finally operate as an actual investment of so much specie." But he concludes this naïve explanation with the statement that "as far as the dividend on the stock shall exceed the interest paid on the loan, there is a positive profit."

Hamilton deemed it necessary to make a special explanation and defense of one other feature in his bank scheme—the provision that United States stocks might be subscribed into the capital. The chief object of this was "to enable the creation of a capital sufficiently large to be the basis of an extensive circulation, and an adequate security for it." To collect a specie capital of $10,000,000 into one depository was out of the question; recourse must be had, then, as was the case with the Bank of England, to basing

[a] See p. 45.

the circulation in large part on the public debt. Public stocks could always be converted promptly into coin. But as Professor Sumner very properly puts it: "When the first Bank of the United States was organized, the Government did not need to borrow and did not obtain any loan by the subscription of the public stock into the capital. That arrangement never had any proper cause or excuse, and only served to give occasion for some clamor against the bank, as a piece of jobbery and favoritism to the bondholder."[a]

The device by which Hamilton carried through the government subscription of $2,000,000 and received a loan of a similar amount, "a simultaneous transaction" which did not involve the payment of a single dollar in money, was an ingenious example of financial juggling. For the Government to pay for its stock by actually drawing money from Europe, and then to remit back to Europe out of the loan to be obtained from the bank, would be at once useless and disadvantageous. This would involve a loss on exchange in consequence of overstocking the market with foreign bills and a loss in interest while the transaction was being carried through. Accordingly, upon Hamilton's suggestion, the following "merely formal arrangement" was adopted. The United States Treasurer drew bills on the American commissioners in Amsterdam for the amount of the subscription. These bills were bought by the bank, and warrants on the bank in favor of the Treasurer placed the proceeds in the Treasury. Warrants were then issued on the Treasury in favor of the bank

[a] History of Banking in all Nations, Vol. I, p. 32.

and the amount of the subscription was receipted for as paid. Simultaneously with this transaction, the bank loaned $2,000,000 to the Government, which sum was paid by the redelivery of the Amsterdam bills. Finally warrants were drawn upon the Treasurer to replace the money supposed by this arrangement to be drawn from the foreign fund. The bills were canceled, attached to the warrants, and held in the Treasury as vouchers of the transaction.[a] Shorn of technicalities, the Government paid for its stock in bills of exchange on Amsterdam, then it borrowed these bills and gave its note for $2,000,000, payable in ten equal annual installments of $200,000 each, with interest at 6 per cent. The practice thus instituted by the Government itself of paying subscriptions with stock notes was followed widely and, in numerous instances, with disastrous effects, in the next fifty years.[b]

It will be fitting here to trace how the Government met its subscription obligations to the bank. The first installment was due January 1, 1793. In the preceding November Hamilton brought the matter to the attention of the House, but that body made no provision for paying it; so Hamilton left a deposit of $200,000 with the bank as an offset until legislative provision should be made. This had the effect of suspending interest on the installment. On March 2, 1793, Congress authorized payment out of the proceeds of foreign loans. The Attorney-General decided, however, that under the legal construction of the contract the foreign fund could not be applied in that way until June 25. Not until July 20—a delay of

[a] American State Papers, Finance Folio, Vol. I, p. 91.

[b] Sumner, History of Banking in all Nations, Vol. I, p. 32.

more than six months—was the first installment actually paid. A similar delay occurred in paying the second installment. Congress was even more tardy in acting, for it was not until July 4, 1794, that payment was authorized. Hamilton advised the bank that as an offset he would defer calling the last installment of the $800,000 loan which the bank had made to the Government. This arrangement favored the Treasury, for it arrested interest at 6 per cent on the sum due the bank with a fund obtained from the bank itself bearing only 5 per cent.[a] The foregoing transactions established the principle of paying the installments on the last day of the year. Congress provided for the payment of the next installment, due at the end of 1794. The next two payments were not made until January, 1797, when 2,160 shares of the Government's stock were sold at $500 (a premium of 25 per cent) and $400,000 was applied in paying the fourth and fifth installments. The other five installments were paid more promptly.

Election of Directors.

The bank had been open only about two weeks when the time came for the election of directors, of whom only three-fourths were eligible for reelection. Of the 25 chosen, 11 were from Pennsylvania, 6 from New York, 3 from Massachusetts, and 1 each from Maryland, South Carolina, North Carolina, Connecticut, and Virginia.[b] In the list were several recognized leaders of the Federalist party and several of them were members of Congress. It

[a] Finance, Vol. I, p 278.
[b] General Advertiser, January 5, 1792.

was but natural that the directors of the bank, chartered by a Federalist Congress, should be largely of that party, yet this fact gave the Republicans and opponents of the bank a basis for criticism and opposition which was never in the twenty years of its existence wholly silenced. In the next annual election of directors, January 5, 1793, only 10 Pennsylvanians were elected to the directorate, and 15 from other States. This would indicate that more than a majority of the stock was held out of the home State. The Philadelphia stockholders apparently were slow in nominating their quota of directors, so the outsiders named 10, of whom 2 were not included in the ticket of 12 which a few of the stockholders in the city had got together at short notice. In a letter to the General Advertiser a disgruntled stockholder urged that non-resident directors could not serve the interests of the bank so effectively, since "they do not visit the bank more than once or twice in the course of twelve months, and then only for a few days when their private business calls them to this city."[a]

For the first few years the Bank of the United States occupied Carpenters' Hall on Chestnut street between Third and Fourth.[b] In 1797 a superb building was erected for its accommodation on Third street between Chestnut and Walnut, after plans drawn by Samuel Blodget.[c] Under date of December 3, 1791, the cashier, John Kean, gave notice in the newspapers that the bank would open on Monday, December 5, and that it would begin to

[a] February 5, 1793.

[b] Philadelphia Directory, 1793.

[c] Blodget's Economica, p. 165. This site is now occupied by the Girard National Bank.

receive deposits the following Monday, December 12. The intervening week was occupied in making transfers of stock and with matters of routine incident to the commencement of actual business.

Branches.

Hamilton's original plan of the bank did not contemplate the establishment of branches, and the clause providing for them was inserted against his judgment.[a] In his report to Congress on the national bank he admits that there might be some advantages in the branch plan. It would afford more general accommodation, and would lessen the danger of a run on the bank. But, on the other hand, the mismanagement of any branch, which, though under subordinate direction, must necessarily be intrusted with considerable discretion, might endanger the interests of the whole system. Because of the complexity and uncertainty of the branch scheme, therefore, he thought it well to go no further than to insert a provision by which branches might be established some time in the future if experience demonstrated their utility and safety. There was much difference of opinion on this subject. Wolcott, who was consulted, favored the branch plan, and, "a majority of the stockholders assenting, it was adopted on a plan suggested by him."[b]

The directors decided to open branches at New York, Boston, Baltimore, and Charleston as soon as possible after the first Monday in January, 1792. The plan provided that the directors of the parent bank should appoint

[a] Hamilton to William Seton, November 25, 1791, Works, Vol. V, p. 486.
[b] Gibbs, Vol. I, p. 67.

annually not less than nine directors for each branch, a majority to constitute a board. Not more than three-fourths of them, exclusive of the president, were to be eligible for the next year. The directors of the main bank appointed the cashiers of the several branches; the directors of the branches appointed their own president, tellers, and clerks, but the sureties of the latter were subject to the approval of the directors of the Bank of the United States. The salaries of all the branch officers and clerks were fixed by the directors of the parent bank, who also prescribed the method of keeping the accounts and records. It was provided that the part of the capital which consisted of United States stock (bonds) should not be divided, but the branches could discount upon such part of the specie capital as the directors should apportion to them, and "with such part of the deposits as shall be lodged with them" as the branch directors should deem safe and expedient. All the notes issued at the branches were to be signed and countersigned by the president and cashier of the parent bank, to be payable at the branch issuing them, and to be delivered to the cashier of the branch, who was required to give duplicate receipts for them, one to be lodged with the president of the parent bank, the other with the president of the branch. All notes unfit for circulation were to be canceled by the president and directors of the branch, and immediately transmitted to the directors of the main bank, where they were to be credited to the branch. Each branch was required to send to the mother bank a weekly statement of condition—debits and credits, notes issued, and cash on hand, distinguishing specie and the several kind of bank notes. The continuance of the branches was to be at the pleasure of the directors of the main bank, but none of the foregoing regulations was to be rescinded except at a meeting of a majority of the directors.[a]

At a meeting of the directors January 12, 1792, 13 directors were elected for each of the branches at New York, Boston, and Charleston, and a month later a like number were chosen for the Baltimore branch.[b] Within a short time other branches were opened at Norfolk (1799), Savannah, and Washington, and in 1804 a branch was established at New Orleans, making in all eight branches. Contrary to the original arrangement, under which that part of the capital which consisted of United States bonds was not to be divided, each branch was apportioned a share of the whole capital. The capital reserved for the parent bank at Philadelphia was $4,700,000, the balance being distributed among the several branches as follows: New York, $1,800,000; Boston, $700,000; Baltimore, $600,000; Norfolk, $600,000; Charleston, $600,000; Savannah, $500,000; New Orleans, $300,000; and Washington, $200,000.[c] This distribution gave the eight branches a total capital of $5,300,000, a trifle more than the amount allotted to the main bank. In 1792, when these branches went into operation, Boston had one bank, the Bank of Massachusetts, established in 1784; Baltimore had one, the Maryland Bank, chartered in 1790; Philadelphia had the Bank of North America, founded in 1781; and New York had the

[a] Daily Advertiser, November 18, 1791.
[b] Pennsylvania Journal, January 25, February 15, 1792.
[c] Finance, Vol. II, p. 479.

Bank of New York, which began business in 1784, but which did not secure a charter until 1791. The other banks in the country at that time were the Bank of Providence, established in 1791, the Bank of Albany, the unchartered Bank of South Carolina, the Union Bank of Boston, and the Hartford Bank, all founded in 1792.[a]

It has already been noted that Hamilton did not favor the establishment of branches. Writing to his friend, William Seton, cashier of the Bank of New York, November 25, 1791, Hamilton says: "Strange as it may appear to you, it is not more strange than true that the whole affair of branches was begun, continued, and ended, not only without my participation, but against my judgment."[b] He naturally had a deep interest in the Bank of New York, and Professor Sumner suggests that one reason for his opposition to the establishment of branches was that he foresaw a collision of interests.[c] Apparently he had hoped to make the Bank of New York the exclusive fiscal agent of the Government in that city.

In a letter to Seton, January 24, 1792, he stated his wish that the Bank of New York should continue to receive deposits from the collector and payment for the Dutch bills in the paper of the Bank of the United States. He had explicitly directed the treasurer not to draw upon the New York institution without special direction from himself. It was his intention to leave it in undisturbed possession of whatever government funds it might have until the commercial crisis impending

[a] Gouge, Journal of Banking, p. 240.
[b] Works, Vol. V, p. 486.
[c] History of Banking in all Nations, Vol. I, p. 33.

at that time should subside. Hamilton even commended the action of the Bank of New York in refusing to receive the paper of the Bank of the United States during the crisis, and assured Seton that, if pressed, his bank should receive whatever support the Secretary could render. He wrote: "I consider the public interest as materially involved in aiding a valuable institution like yours to withstand the attacks of a confederated host of frantic and, I fear in too many instances, unprincipled gamblers."[a]

Hamilton recognized, however, that the establishment of a branch of the Bank of the United States in New York would ultimately make it incumbent upon him to deposit the public funds in the branch rather than with the Bank of New York. He assured Seton, however, that he would precipitate nothing, but would effect the transfer so as not to embarrass or disturb his bank. Realizing that the branch must preponderate, he advised Seton to cast his lot with it.[b] Experience demonstrated the safety and wisdom of the branch system, and in time Hamilton's doubts were dispelled. In 1794 we find him urging the bank to open a branch at Alexandria, Va.[c]

RELATION TO STATE BANKS.

From the outset the United States Bank entered into friendly cooperation with the State banks. Early in the year 1792 the directors appointed a committee to confer with a similar committee of the Bank of North America once a week, "for the purpose of communicating freely upon the business of both, as well to prevent improper

[a] Works, Vol. V, p. 492. [b] Ibid., p. 486. [c] Ibid., p. 76.

interference with each other as to promote the accommodation of the citizens."[a] The two banks made settlements and exchanged notes daily, and when the Bank of Pennsylvania was established in 1793 it was included in this arrangement. Some years later the three banks went still further and adopted uniform rules regarding discounts and other matters of routine. At a joint committee meeting held March 2, 1797, the rule was adopted that "after March 31 all bills made payable at sight or on demand must be paid on the same day they are presented." It was also agreed not to discount any note in which the words "without defalcation" or "without set-off" were omitted.[b] Again, during the hard times that followed the devastations of the yellow fever we find committees from the three banks conferring on "the prevailing distress of the mercantile interests of this city."[c]

Similar cooperation existed at first between the New York branch and the Bank of New York. When financial stringency threatened, however, each bank looked to its own interests. In 1796 Europe experienced a severe financial crisis, which caused the Bank of England to suspend specie payments, and its effects were felt in this country. The Bank of New York, partly because of heavy loans to the Government, and partly because of an overextension of credit, became a heavy debtor to the Bank of the United States. The New York branch demanded the payment of $100,000 in specie on account,

[a] Directors' Minute Book, Bank of North America, March 22, 1792.
[b] Ibid., March 2, 1797.
[c] Ibid., May 16, 1799.

which, it was apprehended, would be followed by further demands. It was feared that the Bank of New York would be compelled to sell the public stock which it held as collateral, if the Government should not be punctual. Hamilton wrote to Wolcott, December 6, 1796, asking him to come to the aid of the Bank of New York. "It would be wise," he writes, "if possible, to anticipate a particular payment. It will be also useful to arrest for a time too free calls from the office."[a] Wolcott replied, December 8, that the Bank of New York might rest assured of as full and cordial assistance from him as was in his power. He thought, however, that they would have to rely upon sales of stock, principally, as it was impracticable in the existing state of the Treasury to anticipate payments. In this same letter, Wolcott says: "These institutions have all been mismanaged; I look upon them with terror. They are at present the curse, and I fear they will prove the ruin, of the Government. Immense operations depend upon a trifling capital fluctuating between the coffers of the different banks."[b]

The bank undoubtedly had an influence in restricting the circulation of state banks. This was admitted by these institutions, and by many of them regarded as a benefit.

Loans to the Government.

The first loan which the bank made to the Government in connection with the subscription of capital has already been referred to. Under the terms of the charter the bank loaned the United States $2,000,000 at 6 per cent,

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[a] Works, Vol. VI, p. 184. [b] Ibid., p. 176.

reimbursable in 10 equal annual installments or in any greater proportions that the Government might think fit. The interest on $1,000,000 of the loan commenced December 20, 1791, at which time the dividends on the stock began to accrue. On the other $1,000,000 interest commenced July 1, 1792. Toward the close of the year 1792 Congress asked Hamilton to submit a plan to reimburse the loan to the bank. He proposed to borrow the money. He thought a loan could be floated in Holland, which, based upon the rates of earlier foreign loans, would effect a net saving to the Government of $35,000 a year—the difference between the interest on the proposed foreign loan and that on the bank loan. But the dividends on the bank stock were 8 per cent, while the interest on the loan was only 6, and with this profit Congress seemed satisfied.[a] The Government, however, was not content with this. It was without funds at the outset, and though Hamilton early worked out a scheme to supply it with revenue, the money flowed into the Treasury but slowly, while obligations had to be paid when due. Recourse was had to temporary loans, which were secured from the bank. Unexpected exigencies required the expenditure of considerable sums before there was time to raise them by the normal method of additional taxes. These loans, therefore, were larger and continued for a longer time than was at first expected, causing embarrassment to the Treasury and uneasiness to the bank before they were finally settled.

In May, 1792, the Government needed money to meet the expenses of one of its Indian wars, and Hamilton

[a] Finance, Vol. I, p. 178.

contracted with the bank for a loan of $400,000 at 5 per cent.[a] In 1794 Congress authorized a loan of $1,000,000, and Wolcott, who had succeeded Hamilton as Secretary of the Treasury, entered into negotiations with the Bank of the United States, which, fettered by its previous loans, could not advance the money. The bank, however, offered to lend $800,000 in Government 6 per cents, if certain duties were pledged for payment. Another loan of $1,000,000 was made by the bank at the same time.[b]

The difficulties of the Government increased with both England and France, and more money was needed to prepare for hostilities. In December, 1794, another loan of $2,000,000 at 5 per cent was authorized.[c] In the following February a loan of $800,000 was authorized to reimburse the bank for that amount borrowed the previous year. On March 3, 1795, Congress authorized still another loan of $1,000,000. The bank advanced one-half of this March 24, and the balance September 30, at 6 per cent. Again on December 31, 1795, the bank advanced $500,000 at 6 per cent for payment of interest on the public debt. Three years then elapsed without further loans from the bank. On January 1, 1799, Wolcott secured another loan of $200,000 at 6 per cent, payable January 1, 1803.

Thus it appears that the Bank of the United States accommodated the Government whenever called upon and continued the loans to suit its convenience. At the end of its first year the bank had loaned the Government

[a] Act May 2, 1792, 2d Cong., 1st sess., ch. 27, sec. 16.
[b] Act March 20, 1794, 3d Cong., 1st sess., ch. 8.
[c] Finance, Vol. I, p. 630.

over $2,500,000; by January 31, 1795, when Hamilton resigned, the total loan amounted to $4,700,000. This indebtedness increased under his successor, Wolcott, until it finally amounted to $6,200,000 at the close of the year 1795.[a] Within four years the Government had borrowed nearly two-thirds of the entire capital of the bank. The bank naturally became restive and impatient; the loan of so large a proportion of its funds crippled its services to commerce and manufactures and made it difficult to "facilitate the financial operations of the Government by temporary loans." Wolcott proposed to commute the whole debt due to the bank into a funded stock a 6 per cent, and irredeemable for such a period as would invite purchases at par. He argued that inasmuch as this debt was contracted in exchange for an equal sum of the capital stock or consisted of sums advanced for the public service in anticipation of revenue, it might fairly be considered as first in merit and importance. Moreover, the proposed commutation would enable the bank to grant further loans as public exigencies should require without exposing the Government to certain expenses always attending loans from individuals. Then, again, sales of stock could be made to the best advantage through the agency of the bank, and any premium would inure to the advantage of the Government.[b]

In March, 1796, the Ways and Means Committee, acting upon Wolcott's proposal, recommended a loan of $5,000,000 to discharge the debt to the bank. But in May, William Smith, the chairman of the committee, was

[a] Gibbs, Vol. I, pp. 187, 288.

[b] Statement of Public Debt, December 31, 1795, Finance, Vol. I, p. 372.

delegated to inquire whether the bank might be willing to continue the loans of the Government by new loans on terms similar to the old ones.[a] The bank, however, was not disposed to permit even so powerful a customer as the United States to continue to monopolize its funds. There had been a great increase in the price of all kinds of property, which required a corresponding increase of circulating medium to represent it. The bank needed more available funds to serve more generally the interests of commercial and manufacturing customers, and also to be in a position to aid the Government by temporary loans. The active employment of a larger specie capital would also be to the immediate advantage of stockholders and customers. While serving as president of the Bank of North America, Willing had seen that institution crippled by large loans to a few powerful customers, who met their maturing obligations by renewal upon renewal, and he seems now determined that the Bank of the United States shall not be subjected to the same experience, through monopolization by the Government. He, therefore, requested that the United States should extinguish the loans already due, as well as provide for those maturing during the year 1796.

When the bank took this firm stand a bill was introduced into the House authorizing the commissioners of the sinking fund to issue $5,000,000 of 6 per cent stock, the proceeds of which were to be paid to the bank. The stock was to be redeemable in 1819, and was not to be sold below par. But the Government's credit had been so weakened by its failure to meet expenditures through

[a] Finance, Vol. I, p. 409.

additional taxation that the stock was selling at a discount when this bill passed the House.[a] The directors of the bank saw clearly that the bill would not furnish the desired relief. Willing, therefore, wrote to the Secretary of the Treasury protesting against the kind of relief proposed in the bill then before the Senate. The bank's advances amounted to $6,000,000, of which $4,400,000 was due or payable during the year 1796. The existing state of moneyed operations, and the prosperity and reputation of the bank, absolutely required the active use of a larger portion of its specie capital. If the Government should provide no other means of liquidating their claims than by the sale of stock at par, a violation of public faith would surely follow. Government stocks fluctuate in price like other property, and if these could be sold only at par the bank might have to wait indefinitely for reimbursement. Moreover, even if they were disposed to make a sacrifice and receive the stock at par, they were debarred by a clause in the charter from making such a commutation.[b]

Wolcott, recognizing that the bill would fail of its purpose, addressed a letter to the Senate May 12, 1796, suggesting that the commissioners be empowered to obtain loans unfettered by any conditions which might result in a failure of public credit.[c] The act was, in consequence, modified so as to allow not more than one-half the stock to be sold below par; and as a final resource the commissioners were authorized to sell the bank shares.

[a] Goodrich to Oliver Wolcott, sr., May 6, 1796, Gibbs, Vol. I, p. 336.
[b] Communication to Senate, May 11, 1796, Finance, Vol. I, p. 412.
[c] Gibbs, Vol. I, p. 348.

THE GOVERNMENT SALE OF BANK STOCK.

Even in its amended form the act was unsatisfactory, and the new securities thus authorized went a-begging. After a lapse of several months only $80,000 had been sold, and the commissioners were compelled to sell some of the government holdings of bank stock to reimburse the bank. Hamilton deplored the sale of the bank stock and declared that he wished to forget there was a bank or a treasury in the United States. Writing to Wolcott, he said: "I shall consider it as one of the most infatuated steps that ever was adopted."[a] Wolcott, too, opposed the sale, and it was only resorted to by the commissioners upon the most urgent compulsion. On January 24, 1797, Wolcott reported the sale of 2,160 shares of bank stock on a credit of sixty days without interest at $500 (a premium of 25 per cent).[b] The proceeds, $1,080,000, together with $120,000 realized on the sale of the new government stock up to that time, were paid over to the bank.[c] By July, 1797, 620 more shares were sold through the bank as agent, 387 shares at a premium of 20 per cent, the rest at 25 per cent advance, netting a total of $304,260. They were sold mostly in small lots of 6, 10, 20, and 50 shares.[d] By November 30, 1797, Wolcott had made additional payments to the bank to the amount of $560,000, making for the year a reduction of about one-fourth of the indebtedness. Thereafter the Government made greater effort to reduce the debt,

[a] Works, Vol. VI, p. 143.

[b] The bulk of these shares were sold in Philadelphia, a few in New York and Boston.—Finance, Vol. I, pp. 468–469.

[c] Finance, Vol. I, p. 467.

[d] For details of these sales, see Finance, Vol. I, pp. 467–500; ibid., Vol. II, p. 351.

but it was not entirely discharged for several years.[a] These sales of bank stock, rendered necessary by the stupid failure of Congress to provide adequate revenues by resort to taxation, or its desire to embarrass the administration,[b] reduced the holdings of the Government to 2,220 shares. These were sold in 1802 to the Barings at a premium of 45 per cent.[c] Thenceforth the Government ceased to be a stockholder. Exclusive of dividends, the Government made a profit of $671,860. The dividends amounted to $1,101,720 in addition.[d]

Circulating Notes.

The act of Congress laying duties on imports, which went into effect August 1, 1789, provided for the acceptance of gold and silver only in payment of duties. Hamilton, however, construed the object of this provision to be the exclusion of payments of the notes of the States, and "the securing the immediate or ultimate collection of the duties in specie, as intended to prohibit to individuals the right of paying in anything except gold or silver coin; but not to hinder the Treasury from making such arrangements as its exigencies, the speedy command of the public resources, and the convenience of the community might dictate, those arrangements being compatible with the eventual receipt of the duties in specie. The measure is understood by all concerned to be temporary. Indeed, whenever a national bank shall be instituted, some new disposition of the thing will be a matter of course."[e]

[a] Bolles, Financial History, Vol. I, p. 139.
[b] Gibbs, Vol. I, p. 348.
[c] See below, p. 85.
[d] Seybert, Statistics, p. 519.
[e] Finance, Vol. I, p. 49.

The charter of the Bank of the United States, therefore, provided specifically that its notes should be receivable in all payments to the United States. Both the parent bank and the several branches issued notes, the lowest denomination being $5. The total amount in circulation never exceeded $6,000,000. The notes issued by the branches were signed by the president and cashier of the main bank. The cashier of each branch gave duplicate receipts for them, one copy to remain in the hands of the branch president, the other to be kept by the president of the parent bank. At first the bank established the rule of making the notes payable only at the places where they were issued. Subsequently, it undertook to receive them in Philadelphia or at any branch, but a short experience with this practice led to its discontinuance.[a] The fact that the bank refused to accept the notes of its own branches gave occasion for much criticism, but the rule, under the conditions existing at that time, was, probably, a wise one. It compelled each branch to stand upon its own bottom, and checked any possible disposition to overissue. On the other hand, this rule protected the bank from the effects of a sudden demand for payment, at any of its offices, of a large accumulation of its bills. The principle was recognized in the charter of the second Bank of the United States.[b]

For protection against loss in transmission "half notes," or duplicates, were issued and widely employed. Payment of these notes could be secured only upon presenta-

[a] Minute book, Bank of North America, April 27, 1795.
[b] Finance, Vol. IV, p. 809.

tion of both halves or upon furnishing a guaranty of the destruction of the missing half.

The bank also issued post notes in various denominations, not infrequently of $100, and having various terms to run. Generally, they were payable thirty days after the post date. They were signed by the president and cashier of the bank, and instead of being made payable to the bearer, as with the ordinary circulating notes, were made payable to the order of some merchant or trader who would pass them by indorsement in the course of business. They differed in no essential particular from the ordinary personal promissory notes, except that the bank stood behind the promise. The papers of this period contained frequent notices of the loss in transit of these post notes and of application to the bank for renewal or payment.

By making all duties payable in notes of the Bank of the United States, these notes gained a far more extensive circulation than those of any other bank. Moreover, the bank and its branches exercised a salutary restraint upon overissue by other banks by following the practice of presenting promptly the notes of other banks received over their counters.

Owing to the lack of published reports, it is impossible to present statistics showing the volume of notes issued at different dates. In 1811, just before liquidation, the total note issues amounted to $6,152,553, of which about $5,000,000 was outstanding. The mother bank had issued $1,600,000, of which $1,500,000 was in circulation; New York had about $1,000,000 in circulation against $1,200,000 issued; Boston issued only $435,680, of which $259,248 was on hand; Charleston and Savannah each had put out over $800,000, the bulk of which was in circulation; the total issue of the New Orleans branch, $192,140, was in circulation.

COUNTERFEITING OF NOTES.

As early as 1794, counterfeiting of bank notes became alarmingly prevalent. Counterfeits of the $5 bills of the Bank of the United States were especially common.[a] In March of that year, a joint committee from the Bank of North America and the Bank of the United States met to take action. The two institutions joined in offering a reward of $1,000 for the apprehension of the counterfeiters. Winchester, Va., was headquarters for a nest of them, and in April, 1794, George Simpson, assistant cashier of the United States Bank, and the teller of the Bank of North America were sent there to gather and present evidence against them. They were instructed to post hand bills in every tavern and public place along the route advertising rewards for the detection of the counterfeiters.[b] In 1798, Congress passed an act making it a felony to counterfeit the notes of the Bank on penalty of imprisonment for from three to ten years, or ten years' imprisonment and a fine of $5,000.[c] In 1807, this act was amended so as to include the passing of counterfeit notes.[d] The courts had decided that the former law was inconsistent with itself and would not support an indictment for knowingly uttering as true a forged paper.[e]

[a] Minutes, Bank of North America, March 31, 1794.
[b] Ibid., April 30, 1794.
[c] Act June 27, 1798.
[d] Act February 24, 1807.
[e] 4 Cranch, 167.

Cooperation with the Mint.

Under the terms of the coinage act of February 9, 1793, all foreign silver coins, except Spanish milled dollars and parts of such dollars, ceased to be a legal tender after October 15, 1797. These coins, however, constituted a considerable part of the silver in circulation, and much embarrassment and loss resulted. The Bank of the United States showed a willingness to receive French crowns and other silver coins at current rates as a legal tender. The Treasury Department, therefore, sent out a circular authorizing collectors of the customs and supervisors of the revenue to accept such coins in payment to the Government. Not until 1857 did these foreign gold and silver coins cease entirely to be a legal tender.[a]

As late as 1798, the bulk of the bank's specie supply consisted of French and Spanish coins, for which there was a large foreign demand at that time. The mint received these foreign coins from the bank in sums not exceeding $10,000.[b] The specie in the vaults of the bank, collected on government account, was not regarded as the exclusive property of the United States; it was considered rather, as an aggregate fund in which the Government and the bank were jointly interested. The bank, however, was always willing to cooperate with the mint by advancing foreign coins and bullion to be recoined. It was the chief source of supply of bullion for coinage, and the temporary depository of bullion until required in the mint operations.[c]

[a] Hepburn, Contest for Sound Money, pp. 48, 497; 11 stat. L. 163.

[b] Finance, Vol. II, pp. 503, 506.

[c] Finance, Vol. II, pp. 165, 224, 458, 611.

On January 11, 1803, the Director of the Mint reported that the most of the bank's specie was in gold coin, and that for some time past they had been canceling their $5 notes, substituting half-eagles "by which our coins begin to be more generally dispersed among the people."[a]

THE TREASURY AND THE BANK—FOREIGN EXCHANGE OPERATIONS.

The relations of the bank to the Treasury were, as designed by its establishment, of a most intimate character. In addition to making loans, it aided the Government in its foreign exchange operations; it was the depository of a large part of the government funds; it assisted the importers in the payment of customs duties; it transferred the public funds from place to place at its own expense.

The article of the charter which set forth the objects in which the bank might trade, specifically permitted dealing in bills of exchange. In view of its superior resources, the wide distribution of its funds through the medium of its eight branches, its practical control of the specie supply of the country, and its intimate relation to the Government, it is but natural that the Bank of the United States should have secured the lion's share of the exchange business, both foreign and domestic. The purchase of the Government's foreign remittances generally fell to the bank or one of its more important branches. At certain periods the volume of this business on government account was very large. That it was profitable may be inferred from the fact that the second

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[a] Finance, Vol. II, p. 18.

Bank of the United States was eager to secure a monopoly of it.[a]

Hamilton utilized the services of the Bank of the United States, as well as some of the state banks, in negotiating the foreign bills drawn upon the American commissioners in Amsterdam and elsewhere. He was accused of displaying favoritism toward the bank. In a communication to one of the papers, in 1793, "Observer" takes Hamilton sharply to task for his rather curt report to the House of Representatives in obedience to a resolution calling for a report of certain operations and accounts of the Treasury, especially in relation to the bank in the matter of the foreign loans.[b] "Observer" suggests that the proceeds of these loans, instead of being placed in the Treasury, where they would be subject to official checks, were deposited in the bank "in concert with the directors, many of them members of the legislature, well-trained partisans of the fiscal faction, and deeply immersed in paper speculations."[c]

In a letter to the House of Representatives, February 19, 1793, Hamilton replied rather brusquely, but in considerable detail, to the criticism that the proceeds of the foreign bills served no object of public utility, and that they were calculated merely to indulge a spirit of favoritism toward the Bank of the United States. He presented a detailed statement of all receipts on account of these bills which began in March, 1791, and ended in March, 1792, showing that the government deposits in the Bank of the

[a] McCulloh to Secretary Crawford, March 17, 1817, Finance, Vol. IV, p. 774.
[b] Journal, House of Representatives, March 1, 1793, pp. 151–156.
[c] General Advertiser, February 27, 1793.

United States were about one-fourth of those in the Bank of North America and one-half of those in the Bank of New York, these two institutions being agents of the Treasury for the sale of the foreign bills. The Bank of New York continued as a depository of public revenues until April 1, 1792, when the New York branch of the Bank of the United States went into operation. Indeed, a portion of the government deposits, as shown in the following table, was continued in the state banks through the year 1792. After the bank got well under way a concentration of the public deposits in that institution, growing out of its relation to the Government, followed as a matter of course. But this concentration was accomplished gradually by drafts upon the other depositories to meet government disbursements, rather than by direct transfer.

Statement of cash in the Treasury, showing monthly balance during 1792.[a]

[Cents have been omitted throughout table.]

Date.	Bank of the United States.	Boston branch.	New York.	Balti-more.	Charles-ton.	Bank of Massa-chusetts.	Bank of New York.	Bank of North America.	Bank of Provi-dence.	Bank of Mary-land.	Total.	Sums in bills as returned by Bank of the United States.	Specie.
1792.													
Jan. 1	$133,000	--------	--------	--------	--------	$65,578	$224,677	$471,972	$7,969	$50,665	$953,862	--------	--------
Feb. 1	456,278	--------	--------	--------	--------	71,215	128,708	151,516	7,969	49,583	865,271	--------	--------
Mar. 1	692,959	--------	--------	--------	--------	31,769	32,352	31,515	8,404	34,752	831,754	--------	--------
Apr. 1	359,643	--------	--------	--------	--------	37,712	254,930	31,515	7,156	60,418	751,377	--------	--------
May 1	301,455	--------	--------	--------	--------	50,785	305,854	31,515	1,156	86,618	777,385	--------	--------
June 1	309,186	--------	$24,273	--------	--------	3,735	294,527	31,515	5,856	85,095	754,191	$157,508	$596,683
July 2	212,403	$111,343	63,919	--------	$43,805	11,415	62,628	61,601	18,434	37,581	623,133	220,900	402,233
Aug. 1	208,988	99,538	83,099	[b]$2,530	49,113	13,012	54,078	61,601	21,588	2,723	593,762	73,650	520,112
Sept. 1	401,084	110,139	93,980	3,454	33,661	13,626	54,259	61,601	18,649	9,800	790,457	118,700	671,757
Oct. 1	117,198	77,666	14,130	22,344	36,970	13,626	60,219	61,601	17,157	([b])	420,914	31,100	389,814
Nov. 1	172,405	116,686	64,908	43,644	51,616	13,626	69,019	61,601	28,452	--------	621,962	88,700	533,262
Dec. 1	247,139	14,3267	223,321	81,074	69,354	[c] 13,626	69,019	61 601	45,957	--------	940,735	58,300	882,435
1793.													
Jan. 1	109,169	154,860	224.734	73,653	62,015	--------	69,019	61,601	28,157	--------	783,212	209,200	628,012

[a] Finance, Vol. I, p. 214. [b] On August 15. [c] On November 15.

From the foregoing treasury statements, Hamilton demonstrated that so far as any advantages accrued from the deposits on account of foreign bills drawn prior to April, 1792, they inured to the benefit of the Bank of New York and the Bank of North America, and not to the Bank of the United States or its branches. Indeed, in transferring its fiscal operations from the state banks to the Bank of the United States regard had been paid to the convenience of the former, and so little solicitude had been shown for the accommodation of the latter that the Treasury had been criticised as consulting the accommodation of the Bank of the United States less than was due to its relation to the Government and to the services expected from it.[a]

GOVERNMENT DEPOSITS.

The charter of the bank contained no stipulation that the Government should deposit the public funds in the bank and its branches, nor was there any engagement on the part of the bank to transfer the public funds from one part of the country to another. "It therefore became the subject of arrangement between the Treasury and the bank, and the benefit of the exclusive deposits, it is believed, was made the condition of the service."[b] The successive Secretaries of the Treasury seem to have been content to leave the public deposits with the bank in exchange for the services rendered by the latter in transmitting government funds and in accommodating the Treasury with loans when called upon. Though Gallatin had occasion to turn to the bank for assistance only once,

[a] Finance, Vol. I, p. 223.

[b] Finance, Vol. IV, p. 808.

be stated that it always showed a willingness to aid the Government in every way; and he was careful not to displease it because he recognized that in an emergency the Treasury would have to depend upon it for loans. This arrangement was satisfactory to both the Government and the Treasury, and continued under the administrations of Hamilton's successors. Gallatin said of it: "They place instantly our money where we want it, from one end of the Union to the other, which is done on the tacit condition of our leaving our deposits with them."[a] He maintained that the state banks could not effect the transmission of the public funds with the same facility or to the same extent as the Bank of the United States through its several branches.[b] No step seems to have been taken, therefore, toward requiring the bank to pay interest on the public deposits. In recommending the renewal of the charter, however, Gallatin proposed that the bank should be required to pay 3 per cent on deposits above $3,000,000, which would provide the Government with a means of accumulating an emergency or war fund.[c]

The reports of the bank that have been preserved are so few and fragmentary that it is impossible to present a progressive statement of the government deposits. During the first few years of the bank's existence the Government was not a large and probably not a very profitable depositor.

At the beginning of the year 1793 the treasury funds amounted to $783,212, of which $624,431 was on deposit in the bank and the four branches that had been established by that time.[d] The largest balance to the credit

[a] See p. 64.
[b] See pp. 71, 78.
[c] See p. 73.
[d] See table, p. 53.

of the Government at any one time was at the close of the year 1806, when its balance reached nearly $5,500,000. By the close of the year 1810, however, it had fallen to less than $2,000,000.

In obedience to a resolution of the House, Gallatin submitted a statement December 23, 1806, of the amount of public deposits in the several banks for the three years previous. The Government's average deposits in all banks during that period ran from $4,000,000 to $5,500,000. The average balance, considered as a permanent deposit, in the Bank of the United States and its branches ranged from $3,500,000 to $4,200,000. The following table shows the government balance in each of these depositories at the end of the year: [a]

	1803.	1804.	1805.	1806.
Bank of the United States....	$996,047	$1,130,905	$554,488	$877,505
Boston branch..............	588,078	666,909	818,569	1,173,714
New York branch...........	1,244,276	702,768	1,097,099	1,340,620
Baltimore branch...........	616,177	227,208	431,430	294,560
Washington branch..........	229,648	178,034	72,398	305,740
Norfolk branch.............	471,978	188,339	332,406	180,595
Charleston branch...........	430,224	305,644	159,180	244,975
Savannah branch............	138,591	150,445	119,720	62,328
New Orleans branch.........	....	....	121,000	236,748
Ten other banks............	(a)	(a)	(a)	(a)
	4,285,811	4,036,985	3,999,368	5,497,984

a Small amounts.

The deposits in the state banks were inconsiderable, the Pittsburg branch of the Bank of Pennsylvania carrying the largest amount, a total of $1,190,277 for the three years. That bank was used largely as an agent in collecting the revenues from the sale of western lands. The

a Finance, Vol. II, p. 218.

banks located in the leading customs ports were, of course, the largest depositories. The growth of the business of Boston, and especially of New York, and the decline of the southern ports during this period, are significant.

Among the charges brought against Hamilton was favoritism to the bank in making large deposits of government funds instead of reducing the government debt by buying in stock. Hamilton, however, showed that speculation had so increased prices that profitable purchases could not be made other than those he had negotiated. He also entered into a long and lucid explanation of the treasury practice of keeping $500,000 on hand at the different depositories. This sum was not concentrated at the seat of the Government, but was scattered among the several branches from Boston to Charleston. Funds more remote than New York on one side and Baltimore on the other could not be counted upon as ready cash in less time, on the average, than sixty days, "making allowance for the usual delays in the sale of bills and the usual terms of credit." [a]

Although the bank did not pay interest on the government deposits, it maintained that they were not profitable. In the main, they were not permanent deposits and fluctuated from time to time and from place to place. The heaviest and most frequent demands were made, of course, on the main bank, which always stood ready to support the branches, but each office had to be prepared at all times to meet Treasury drafts payable at some other office or bank. These fluctuations in the deposits, and

[a] Finance, Vol. I, p. 223.

the care and expense involved in their transfer, were such that the bank did not regard them as "a profitable item in the estimates of a discount day." In support of the claim that the Government had added little or nothing to its profits, the bank pointed to the fact that its dividends were usually less than those of other banks which had no government patronage.[a] On the other hand, the bank's opponents contended that the state banks would cheerfully undertake the custody and transmission of public funds in exchange for the benefits arising from government deposits.[b] In the debates of 1811 it was claimed that the large loans of the New York branch, $4,175,000 on a capital of only $1,800,000, were due to the immense deposits of revenue collected there.[c] At different times state banks made overtures to the Treasury to receive a share of the public deposits.[d]

The bank dealt largely in domestic exchange, also, the premium being enhanced considerably by the restriction of the circulation of its notes to the region of the branch issuing them.[e] Government funds were transmitted by the bank from one part of the country to another without direct commission or compensation, but the monoply of public deposits was probably a liberal return for this service.

The following practice for the simplification of the treasurer's bank account, begun with the Bank of North America, had been continued with the Bank of the United States: Bills drawn by the treasurer upon distant points,

[a] Bank Petition for Renewal, April 20, 1808, Finance, Vol. I, p. 301.
[b] See p. 92.
[c] Ibid.
[d] See p. 65.
[e] Finance, Vol. IV, pp. 271, 272, 808, *passim*.

and deposited with the bank for sale, were credited at once to his account as cash, though they might be sold at credits of from thirty to sixty days. It was understood, however, that the proceeds could not be drawn upon until they were collected. Hence the actual balance in the bank was always less than the apparent amount. Drafts on supervisors and collectors of customs were credited immediately on deposit; those upon foreign agents of the United States were not so credited, but after being collected by the bank were passed upon warrants to the treasurer. Bills deposited in the bank were sold according to general instructions from the Secretary of the Treasury. The instructions generally were to dispose of all bills drawn on the domestic revenue at par.[a]

Aid to Importers.

The first revenue act provided that all duties should be paid in gold or silver coin only. Upon the establishment of the bank, however, Hamilton construed this regulation to allow post notes of the bank not having more than thirty days to run to be received in payment, and circular instructions were sent out to all the custom-houses authorizing collectors to accept these notes.[b]

In the spring of 1792 importations into Philadelphia were unusually heavy, and merchants were pressed for money with which to pay their bonds. Hamilton wrote to the bank, March 19, 1792, reminding it that these notes were thus receivable, leaving it to the bank to

[a] Report of Committee to Examine the State of the Treasury, May 22, 1794, Finance, Vol. I, p. 282.

[b] Finance, Vol. IV, p. 267.

decide "how far it might be convenient to make these operations payable in such notes, which might not be convenient if payable immediately in specie or cash notes." In December, 1792, "certain mercantile speculations" had caused an unusual pressure for money, and Hamilton advised the bank that he would have no objection if the notes in which the Government was interested should be renewed for thirty days in all cases where it could be done with perfect safety to the public.

Again, in February of 1793, an arrangement was made with the Bank of the United States for the accommodation of the merchants of Philadelphia whose bonds for duties were to become payable within the next few weeks by which the bank would discount their thirty-day notes for the amount of their bonds and receive these notes from the collector as cash, to be drawn for only by the collector. The branch offices at New York, Boston, and Baltimore were advised that if similar accommodations seemed necessary at those points the Treasury would not draw for the sums involved until the middle of the following May.[a] One striking instance of cooperation between the bank and the Treasury in assisting the importer occurred in Wolcott's administration. John Wilcocks, a Philadelphia merchant, received a cargo of coffee in 1797. He already owed so much for duty bonds that he was unable to meet the obligation on the coffee. He appealed to the Treasury Department, and Wolcott suggested to the bank that they give him the necessary accommodation upon the presentation of indisputable paper and upon the condition that the

[a] Finance, Vol. IV, p. 269.

sum discounted be paid in a post note to be deposited with the collector of the customs.[a]

Prior to 1800 the bank was not utilized in any special way for the collection of the public revenue. The collectors of government revenues kept the collections in their own hands, giving bond for the faithful discharge of their duties. This system was not altogether satisfactory, for there was fear that the collector might lend the public funds to the bondsmen. It seemed wise, therefore, both in the public and private interest, to deposit the revenue bonds in the larger ports in banks. After 1800 the revenue bonds in the half-dozen largest cities were deposited in the Bank of the United States and its branches, by which they were collected. Through this agency the revenues were collected with greater punctuality and economy. A merchant who failed to pay his revenue bond when due lost all credit at the custom-house; and if he failed to pay promptly any bond deposited in the bank for collection, he was denied further accommodation at that bank and the privilege of renewing his paper. Furthermore, whenever any merchant was known to be thus in default, all the other local banks refused him credit and called his loans. This was an obligation he was compelled to meet under penalty of losing his credit at the banks.

The bank exercised another direct influence upon the collection of the revenue. The parent bank at Philadelphia established a rule that any person whose bond to the Government was deposited there had the right,

[a] Finance, Vol. IV, p. 270.

upon securing an additional indorser, to claim a discount for half the amount of his bond. The proceeds of this discount were carried immediately to the credit of the Government. In this way one-half of the bond was collected at the sole risk of the bank without any possibility of loss to the Government.[a]

Gallatin, in citing the advantages derived by the Government from the bank, said: "The punctuality of payments introduced by the banking system and the facilities afforded by the bank to importers indebted for revenue bonds were among the causes which enabled the Government to collect with such facility and with so few losses the great revenue derived from imports."[b]

Opponents of the bank contended, however, that the revenues were nowhere better collected than in those districts where there was no branch of the Bank of the United States, and that in some instances the state banks offered better collection facilities, for they received the notes of banks which the Bank of the United States and its branches would not accept.[c]

Attitude of Democratic Administrations Toward the Bank.

The passing of the political control of the country's affairs from the hands of the Federalists to those of the Democrats at the beginning of the nineteenth century had no immediate effect upon the interests or fortunes of the bank. Though always regarded as a Federalist institution, and managed largely by men of Federalist leanings, its affairs were administered in the main with an eye

[a] Finance, Vol. II, p. 452. [b] See p. 70. [c] See pp. 88, 90.

single to business and profit, and it never became embroiled in political controversies as did its successor, the second Bank of the United States. Only once did the Treasury, under Democratic administrations, apply to the bank for aid, and then it was as cheerfully and generously given as under earlier Federalist administrations.

Jefferson, however, never gave up his antagonism to banks in general and to the Bank of the United States in particular. Writing to Adams in 1814, he says: "My zeal against those institutions was so warm and open at the establishment of the Bank of the United States that I was derided as a maniac by the tribe of bank mongers."[a] In the Anas papers he shows his enmity toward the bank. "While the Government remained at Philadelphia, a selection of members of both Houses were constantly kept as directors, who, in every question interesting to that institution, or to the views of the Federal head (Hamilton), voted at the will of that head, and, together with the stockholding members, could always make the Federal vote that of the majority."[b]

In 1802, the Bank of Pennsylvania ran in debt to the Bank of the United States at the rate of $100,000 a week, owing, it was claimed, to the government deposits in the latter. The cashier of the Bank of Pennsylvania went to Washington to apply for relief. Gallatin, writing to Jefferson, says: "It is evident they have extended their discounts too far. They say they can not at once curtail without ruining their customers, chiefly retail shopkeepers. Those for whom the Bank [of the] United States discounts are generally importers." Gallatin suggests

[a] Works of Thomas Jefferson, Vol. VI, p. 305. [b] Ibid., Vol. IX, p. 95.

three possible lines of relief: (1) To write to the United States Bank to spare them; (2) to deposit $300,000 with them, or to direct the collector at Philadelphia to deposit part of his public money with them; (3) to contract with them for part of the Dutch debt, which, as the Government always paid considerably in advance, would have the effect of a deposit. He had proposed the last of these expedients to the Bank of Pennsylvania, but fearing that they might not be able to agree upon terms, he asks Jefferson whether either of the other two plans might be adopted. Gallatin wanted to avoid any step which would displease the Bank of the United States, "because they place instantly our money where we may want it from one end of the Union to the other, which is done on the tacit condition of our leaving our deposits with them, and because if we shall be hard run and want money, to them we must apply for a loan." [a]

Jefferson's reply again shows his antipathy to banks, and throws light upon the banking practices of the period. He says the difficulties of the Bank of Pennsylvania were due to excessive discounts The bank, in its plea for help, had submitted a statement showing $3,000,000 of outstanding debts due to them. Jefferson calculates that they owed $2,200,000, with $965,000 of good assets. To pay the $1,235,000 balance, "they depend on $3,000,000 of debts due them, the amount of which shows that they are of long standing, a part desperate, a part not commandable." He concludes, therefore, that to deposit public funds with them would only enable them to continue these excessive discounts, the checking of which was

[a] Adams, Writings of Gallatin, Vol. I, p. 80.

the only means of avoiding bankruptcy. The least dangerous plan would be to recommend indulgence to the Bank of the United States, but that would virtually be asking it to lend money to the other bank in order that it might continue lending to others. "The monopoly of a single bank," he says, "is certainly an evil. The multiplication of them was intended to cure it, but it multiplied an influence of the same character with the first, and completed the supplanting the precious metals by a paper circulation. Between such parties the less we meddle the better."[a]

Another illustration of Jefferson's position is seen in the fact that although there was a tacit understanding that the government deposits were to be kept in the Bank of the United States and its branches, he viewed with favor the overtures which state banks made from time to time to the Government to secure a share of them. In the autumn of 1802, the Bank of Baltimore applied for a deposit of government funds. Jefferson wrote to Gallatin: "The consideration is very weighty that it is held by citizens while the stock of the United States Bank is held in so great a proportion by foreigners."[b] If Hamilton regarded the Bank of the United States as a political agent of great possible usefulness to the new government, Jefferson valued no less the political support of banks in general. In the above-mentioned letter, he says: "It is certainly for the public good to keep all the banks competitors for our favors by a judicious distribution of them, and thus to engage the individuals who belong to them in the support of the reformed order of

[a] Jefferson's Works, Vol. IV, p. 439. [b] Writings of Gallatin, Vol. I, p. 101.

things." Again, writing to Gallatin, July 12, 1803, Jefferson says: "As to the patronage of the Republican bank at Providence, I am decidedly in favor of making all the banks Republican by sharing deposits among them in proportion to the dispositions they show; if the law now forbids it, we should not permit another session of Congress to pass without amending it."[a]

With the acquisition of the Louisiana territory from France in 1803 and the consequent expansion of American trade in the Mississippi Valley, the need of more adequate fiscal and banking facilities became imperative. Gallatin urged the Bank of the United States to establish a branch at New Orleans. The bank was disinclined to hazard its resources in the new and undeveloped territory. While negotiations were in progress, Claiborne, governor of the territory, took it upon himself without instructions to establish a bank called the "Louisiana Bank," with a capital of $600,000, which might be increased to $2,000,000.[b] Gallatin was apprehensive that the Bank of the United States would seize this opportunity to break off negotiations for the establishment of the proposed branch, and suggested to Jefferson that Claiborne should be instructed to revoke the charter, leaving the Louisiana Bank on the footing of a private association.[c] The New Orleans branch project stirred Jefferson to a fresh outburst against the bank. Writing to Gallatin, December 13, 1803, he says: "This institution is one of the most deadly hostility existing against the principles and forms of our Constitu-

[a] Writings of Gallatin, Vol. I, p. 129.
[b] United States Gazette, April 9, 1804.
[c] Gallatin to Jefferson, April 12, 1804, Writings of Gallatin, Vol. I, p. 184.

tion." Its hostility was evident from a knowledge of the principles of the persons composing the body of directors in every bank, principal or branch; from their opposition to the measures and principles of the Government, and to the election of those friendly to it; and from the sentiments of the papers they support. He urges that in time of war, the bank with its many branches might be a great obstruction, withdrawing its aid or dictating the terms of peace. Now, while the Government was strong they ought to bring "this powerful enemy to a perfect subordination under its authorities. The first measure would be to reduce them to an equal footing only with other banks as to the favors of the Government." [a]

Gallatin's Defense of the Bank in 1803.

In reply, Gallatin cited the advantages the Government derived from banks, and especially from the Bank of the United States, as follows: A safe place for the deposit of public money; the instantaneous transmission of funds from one part of the country to another; the great facility which an increased circulation and discounts give to the collection of the revenue. For these reasons he was anxious to see a bank established at New Orleans. He could see none but political objections, which, he thought, lost their force when the dependence of banks upon the Government was properly considered. "They are formidable only as individuals and as merchants, and not as bankers. Whenever they shall appear to be really dangerous, they are completely in our power and may be crushed." [b]

[a] Jefferson's Works, Vol. IV, p. 518. [b] Writings, Vol. I, p. 171.

The branch at New Orleans was duly established under the act passed March 23, 1804, which authorized the bank to establish offices of discount and deposit in any part of the Territories or dependencies of the United States.[a] Gallatin's persuasion overcame Jefferson's objections and he signed the bill, thus waiving, so the friends of the bank afterwards maintained, all opposition to the bank on the score of its unconstitutionality.[b]

APPLICATION FOR RECHARTER.

In 1808, three years before the charter expired, the stockholders of the bank memorialized Congress for a renewal. The memorial recited that "in view of the extensive operations of the bank, its intimate connection with public credit and finances, and the wide dispersal of the stockholders, duty to the Government, to the commercial world, and to themselves, prompted them to submit the expediency of protracting the duration of their charter." Without assurance upon this point, prudence and justice would demand the adoption of measures to effect a gradual dissolution. Dissolution would unavoidably impair the fiscal machinery provided by the bank for the collection and payment of public funds, while the withdrawal of $10,000,000 of banking capital would produce serious embarrassment to the trade and commerce of the country. The petition set forth the advantages

[a] United States Statutes, Vol. II, p. 274.

[b] And yet in the face of this obvious waiver, Jefferson had the temerity to write to Eppes, November 6, 1813: "During the life of the United States Bank, the nation had time to consider the constitutional question, and when the renewal was proposed they condemned it, not by their representatives in Congress only, but by express instructions from different organs of their will."—Jefferson's Works, Vol. VI, p. 232.

reaped by the Government from the bank. During the thirteen years that the Government had been a stockholder it had made a neat profit through the difference between its loan from the bank at 6 per cent and the dividends on its stock which averaged about 8 per cent, and when, finally, it disposed of its stock it realized a profit of over $650,000. The bank had aided the Government in maintaining the public faith and credit both at home and abroad by advancing loans amounting to millions of dollars at 5 and 6 per cent. By establishing branches, in some cases upon the suggestion of the Secretary of the Treasury for the peculiar accommodation of the public, and "not always for the general emolument of the bank," it had enabled the Government to carry on its fiscal operations with ease, security, and economy. These fiscal services had been performed without charge or compensation. The petitioners were not insensible to the advantages they, in turn, had derived from this fiscal relationship to the Government. But these advantages consisted, not so much in the government deposits which were subject to such fluctuations and to so much care and cost in transfer that they could hardly be regarded as profitable. That the Government had added little to the profits arising from the general business of the bank was shown by the fact that "the dividends of the bank had always been moderate, and usually less than those of other banks." The advantage to the bank came rather from the confidence of the Government, "founded upon a constant knowledge of the interior management and condition of the bank," which, in turn, had attracted the confidence of both Europe and

America and had given it a character of dignity and stability. The memorial concluded by assuring the Government that, at a time of some national apprehension and alarm, it might confidently rely, in every emergency, upon the prompt and legitimate aid of the bank.[a]

RECHARTER FAVORED BY GALLATIN.

The memorial was referred to Gallatin, who brought in a report, March 3, 1809, in every way favorable to the bank.[b] Indeed in the struggle for renewal which ensues, Gallatin became the advocate and champion of the bank, laboring as faithfully, but with less success, to preserve and perpetuate its life as Hamilton had done twenty years before to bring it into existence. In doing so, he encountered even more opposition and obloquy from his own party than Hamilton had met at the hands of the opposition. The founder lived to see the beneficent effects of the bank enjoyed both by the Government and the business interests of the country; the defender and advocate witnessed its fall and a resulting stream of disaster and ruin.

In stating the advantages derived from the bank by the Government, Gallatin laid stress upon the safe-keeping and transmission of the public funds, the economical collection of the revenue, and the aid furnished to the Government in the matter of loans. The punctuality of payments introduced by the banking system, and the facilities afforded by the bank to importers indebted for revenue bonds, were among the causes which had enabled the

[a] Communicated to Senate, April 20, 1808, Finance, Vol. I, p. 301.
[b] Finance, Vol. II, p. 351.

Government to collect with such facility and with so few losses the great revenue derived from imports. The numerous state banks might afford considerable assistance to the Government in its fiscal operations, but they could not effect the transmission of public funds with the same facility or to the same extent as the Bank of the United States through its several branches. Moreover, the superior capital of the latter afforded greater security against losses, and greater resources in making loans. Another argument advanced by Gallatin was that the Government, in respect to its own operations, should not be dependent upon institutions over which it had no control whatever. A national bank would feel stronger inducements, both from interest and from a sense of duty, to afford the Union every assistance in its power. Though the Government, during the first ten years of Gallatin's administration, had been able to finance its obligations without asking the bank for aid, it had been eminently useful in making the necessary advances in earlier years; and a similar disposition had been shown repeatedly when treasury matters had rendered it advisable to ascertain whether new loans might be obtained if needed.

The strongest objection raised against the renewal of the charter was the large holdings of the bank's stock abroad, requiring the payment of dividends to foreigners. Gallatin turned the tables on these objectors by noting that if the bank should be liquidated, $7,200,000, the amount of foreign holdings, would have to be remitted at once, whereas, if the charter were renewed, only the dividends of about 8½ per cent would be sent abroad. The renewal of the charter would, in that respect, act as a foreign loan bearing 8½ per cent. He suggested that this objection might be removed by a modification of the charter "providing for the repayment of that portion of the principal by a new subscription to the same amount in favor of citizens." Apparently Gallatin did not look far enough ahead to see that, unless foreigners were specifically forbidden to hold stock of the bank, a considerable portion of so good an investment would soon again be in the hands of foreigners. But he dismissed the matter of foreign holdings as trivial compared with the manifest public advantages to be derived from a renewal of the charter.

Modifications Recommended by Gallatin.

By the time of Gallatin's report it had become quite popular for the States to exact bonuses from the banks chartered under their authority. Gallatin considered this possibility with respect to the recharter of the Bank of the United States. Assuming that the market rate of interest would continue at 6 per cent for the next twenty years, and that the dividends of the bank would continue to average 8½ per cent, the profits arising from the banking privilege would be equal to an annuity of $250,000 on the capital. That annuity payable semiannually would be worth almost $2,890,000. Such a huge bonus no bank would, of course, be willing to pay for a charter. Gallatin thought that about $1,250,000 would be the maximum which could be obtained as a bonus if it was deemed advisable to sell the renewal of the charter for a fixed sum of money. He believed, however, that there were other considerations much more important than the mere temporary aid that might come through the exaction of a bonus. His chief suggestions may be briefly summarized. The bank should pay interest on government deposits in excess of $3,000,000. It should be obligated to lend the Government a sum not to exceed three-fifths of its capital at a rate not over 6 per cent, the amount of such loans to be advanced by the bank in monthly installments and to be repaid at the pleasure of the Government. The capital should be increased to $30,000,000, as follows: $5,000,000 to be subscribed by citizens of the United States in such a way as to make an equitable apportionment among the several States and Territories; $15,000,000 to be subscribed by such States as might desire to enter, and a branch to be established in each subscribing State if applied for by the State; all subscriptions to be in specie or stock of the United States; state subscriptions to be payable in ten annual installments or sooner, their shares of bank stock to be nontransferable. Both the general and the state governments should have some share in the direction of the bank, the general government appointing a few directors for the parent bank, and the state governments appointing a few directors in their respective state branches.

Gallatin urged in support of this plan that by requiring interest on the public deposits the Government might in times of peace and prosperity accumulate a fund sufficient to meet periods of war and calamity. Further, the Government could always rely upon a loan of $18,000,000. Payment of the greater part of the proposed increase of capital, in ten annual installments, would be gradual and keep pace with the steady progress of the country, and, finally, the bank itself would form an additional bond of common interest and union among the several States.

INDECISIVE ACTION BY CONGRESS.

The memorial of the bank for renewal was presented to the House March 26, 1808, and referred to the Committee of the Whole, but it got no further during the session. It was presented in the Senate April 20, 1808, and referred to the Secretary of the Treasury for consideration and report at the next session. On March 3, 1809, Gallatin's report was communicated to the Senate.

The memorial of the bank was presented to the House again January 29, 1810, and referred to a committee, which made a report, February 19, in favor of renewal. Agents of the bank had appeared before the committee authorized "to make compensation, either by loans at a rate of interest, or by a sum of money to be agreed upon, or by an increase of the capital stock, by a number of shares to be taken and subscribed for by the United States, to an amount adequate to the compensation to be agreed upon for such renewal." On April 2, 1810, Love, of Virginia, reported the plan of a national bank to be established at Washington with branches in such States and Territories as should apply for them. The States were to be allowed to subscribe an alloted number of shares. April 7, 1810, a bill was introduced to continue for twenty years the existing Bank of the United States, with the charter modifications suggested by Gallatin. The bank was to pay a bonus of $1,250,000; it was to loan the Government, upon three months' notice, any sum not to exceed $5,000,000 at not over 6 per cent; and it was to pay 3 per cent on all government deposits above $3,000,000 remaining for a whole year. This bill was debated in Committee of the Whole April 13, 1810, but it never got any further.

Upon the failure of the House of Representatives to act upon the memorial the bank contracted its discounts and the other Philadelphia banks followed its example. The resulting pressure produced great business distress throughout the city.[a] The curtailments were applied particularly to accommodation paper, of which all the banks appear to have carried a considerable amount. It was said of the Bank of the United States that it met its contractions on accommodation paper by discounting an equal amount of real or business paper. Discounts on these accommodation notes were in the nature of permanent loans, the practice of the banks being to renew them every sixty days. The directors of the Bank of the United States, finding that their action in calling loans had caused so much distress, made an arrangement with the state banks that all should continue their discounts "until the last hour."[b]

Carey, while admitting that money was scarce, says it had often been much more scarce without exciting nearly so much comment. For a long period past, except during the embargo, when the banks had difficulty in keeping their funds employed, there had been a scarcity of money two or three times a year. Brokers were now discounting good notes at 9 and 12 per cent, while in other times the rates had been as high as 1½ and even 2 per cent a month.

[a] See testimony of Philadelphia delegations—Clarke & Hall, pp. 323–327.
[b] Ibid., p. 438.

People then submitted to the high rates without complaining. But now that the charter of the bank was an issue, political capital was being made of the money pressure.[a]

SECOND PETITION FOR RECHARTER.

Congress having failed to act upon the first memorial, the stockholders submitted a second one, dated December 10, 1810, only three months before the expiration of the charter. The memorial recited that a consideration of the stockholders' own convenience and security would have led them to prepare for dissolution, but, in the belief that the general interest required and would obtain a continuance of their charter, they had delayed taking this step, which would inevitably entail so much public as well as private distress. In general, the memorial claimed that the bank, by its early establishment, its extensive and combined operations, and its large capital, had become acquainted with and had materially advanced the trading interests of the entire country. Not being restricted to any particular district, it had acted as the general guardian of commercial credit, and had prevented the balance of trade in the different States from producing a deficiency of money in any of them. It had protected and aided the state banks when unexpectedly pressed, and generally they had the use of not less than one-tenth of its capital. It had been liberal but discreet in its loans to merchants and manufacturers, and by providing a fund sufficient to meet all reasonable accommodations it had repressed usurious lending. The memorial

[a] Letters to Doctor Seybert, p. 19.

laid great stress, again, upon its services and benefits to the Government, and concluded with a statement of the disastrous consequences that would inevitably attend the dissolution of the bank. Great and general injury would ensue from the depreciation in the value of property, the stagnation of business, and the check to commercial enterprise. To discharge the debts due to the bank, the resources of borrowers would be drained, while failure to do so would give an irreparable blow to commercial credit and punctuality. Heavy loss would result to the public revenues, charitable institutions, widows, children, and others interested in the stock.[a]

The petition of the stockholders was presented in both bodies of Congress, December 18, 1810, and for the next three months the question of renewal was uppermost both in Congress and in the country at large.[b]

Crawford, chairman of the Senate committee to which the petition for renewal was referred, wrote to Gallatin, requesting his opinion whether the renewal of the bank's charter would not greatly facilitate the collection of the revenue and promote the public welfare. Gallatin replied, January 30, 1811, that in a report to the Senate two years before he had expressed his opinion in favor of a renewal of the charter, and that his opinion remained unchanged. The advantages of banks in the fiscal operations of the Government were unquestionable. The only question was whether these services could be most conveniently performed by a national bank or by a number of state banks. State banks might be used, and in case

[a] Finance, Vol. II, p. 451.

[b] For detailed proceedings and debates, see Clarke and Hall, pp. 135–471.

of nonrenewal of the charter must be used, by the Treasury, but surely with less convenience and safety. "If the Bank of the United States could be removed without affecting either its numerous debtors, the other moneyed institutions, or the circulation of the country, the ordinary fiscal operations of Government would not be materially deranged, and might be carried on by means of another general bank or of state banks. But the transition will be attended with much individual, and probably with no inconsiderable public injury." Adverting to the question of constitutionality, Gallatin wished to say that "the bank charter having, for a number of years, been acted upon, or acquiesced in, as if constitutional, by all the constituted authorities of the nation, and thinking, myself, the use of the banks to be at present necessary for the exercise of the legitimate powers of the general Government, the continuation of a bank of the United States has not, in the view which I have been able to take of the subject, appeared to me to be unconstitutional."[a]

Many years after this memorable struggle over the renewal of the bank's charter Gallatin wrote to Nicolas Biddle, president of the second Bank of the United States: "In 1810 the weight of the administration was in favor of renewal, Mr. Madison having made his opinion known that he considered the question as settled by precedent, and myself an open and strenuous advocate. We had the powerful support of Mr. Crawford in the Senate, and no formidable opponent in either House but Mr. Clay, a majority of political friends in both Houses, and almost all the Federalist votes on the ques-

[a] Finance, Vol. II, p. 480.

tion, with no other untoward incumbrance but the *personal* opposition to Mr. Madison or myself of the Clintons, the Maryland Smiths, Leib, and Giles. The banking system had not yet penetrated through the country, extending its ramifications through every hamlet, and the opposition, due to the jealousy or selfishness of rival institutions, was confined to a few cities; yet the question was lost."[a]

ATTITUDE OF BANKS AND TRADE ORGANIZATIONS.

In general, the banks and trade organizations of the country favored renewal. They apprehended loss to themselves and prostration of credit and confidence in all lines of business if such a large concern should suddenly be forced to liquidate. The directors of the Bank of New York sent a memorial to Congress in January, 1811, asking that the Bank of the United States be granted a renewal. They regarded it as highly useful to the state banks. From the extent of its capital, its numerous branches all over the country, and its government protection, it was able "to equalize the balance of specie capital among the different cities, and in case of any sudden pressure upon the merchants to step forward to their aid in a degree which the state institutions were unable to do."[b] A meeting of the joint committee of the four state banks in Philadelphia—North America, Pennsylvania, Philadelphia, and Farmers and Mechanics'—held December 15, 1810, adopted resolutions declaring that "general distress and inconvenience will attend the cessation of so great a monied institution," and expressing

[a] Gallatin's Writings, Vol. II, p. 435. [b] Domett, Bank of New York, p. 64.

the opinion that "it can not be injurious but advantageous to the state institutions."[a] The Philadelphia banks sent a memorial to the state legislature, also, saying that the dissolution of the bank would be materially injurious to the state banks. The Chamber of Commerce of Philadelphia, in a memorial to the Senate, December 24, 1810, urged recharter and set forth many facts favorable to the bank based upon local experience. Citizens of Pennsylvania, they asserted, held $1,000,000 of the bank's stock, nearly one-third of the total held in the United States, and had bought the stock at a premium through faith in its management and perpetuity. Some $7,000,000 was held abroad, but there could be no valid objection to this; it was not prohibited in the charter, and the Government itself had but recently sold its own holdings to foreigners. The establishment of the bank had opened large sources of accommodation and insured punctuality in trade. As a result its stock had advanced and attracted a large amount of foreign capital, thus enabling the country to trade upon outside capital at an interest below its market value. The interest and concerns of other banks were interwoven with the existence of the national bank. From the collection of customs bonds at the Bank of the United States, it always held a large amount of paper of other banks. Its continuance, therefore, was "almost indispensable to their safety;" its liquidation would produce "all the evils of prostrated credit and general delinquency in which the other banks must largely share." As to the administration of the bank, these representative business men,

[a] Philadelphia National Bank, p. 52.

many of whom had had dealings with the bank, testified that it had extended its accommodations impartially and to the greatest extent compatible with safety. The foreign trade had for some time been generally embarrassed because of the embargo, and "during the past year merchants had labored under the pressure of a heavy sequestration of property abroad." Specie continued to be exported, and the demand for money was unusually great. They must needs fall back upon the bank to tide them over. Mercantile interests, therefore, looked with alarm to the suspension of the circulation of $15,000,000, the average amount of its loans, to the accumulation of specie in the bank to the amount of its capital (in order to pay off the stockholders), to the withdrawal of $7,000,000 of capital from the country, and to the payment of duties in specie instead of the notes of the bank.[a]

MEMORIALS AND POPULAR DISCUSSION.

The friends of the bank in Philadelphia were active in its support. A petition signed by 868 Philadelphia citizens, dated January 31, 1811, recited the alarm with which they witnessed the opposition to renewal, and prayed that, if renewal were denied, the bank should be given time gradually to close its affairs.[b] A flood of petitions flowed in from all sides, both for and against renewal. A memorial of Pittsburg citizens, dated February 4, 1811, attacked the bank memorial and everyone who had favored renewal. It stated that the bank had shown "a *studied* delay in its collections to gain a renewal under

[a] Finance, Vol. II, p. 453. [b] Ibid., p. 470.

stress of weather; a *studied* pressure on individuals and state banks to gain auxiliaries; a *studied* memorial, containing the most daring insults on the dignity and independence of a free people." In rebuttal of the bank's claim that, to accommodate the Government, it had established branches at places disadvantageous to its business, and from which no profit was expected, the Pittsburg petition exhibited a statement of the capital and loans at the several branches. According to this statement, all the branches, except Boston and Norfolk, had loans outstanding to more than twice the amount of their allotted capital. Washington, one of the two branches established at the request of the Government, had loaned $485,285 on a capital of $200,000, and New Orleans, the other, had outstanding loans of $611,516 on a capital of $300,000. The total capital of the eight branches was $5,300,000; total loans, $10,965,256. The memorial exclaims: "A serious disappointment to men who expected no profit."[a] In a like spirit of bombast and bad reasoning, it belittled every claim and benefit urged in the memorial of the bank.

J. J. Astor, one of the wealthiest men in New York, sent a verbal message to Gallatin assuring him that if renewal were refused, all his funds and those of his friends to the amount of $2,000,000 would be at the command of the Government, either in importing specie, circulating government paper, or in any other way that would prevent distress arising from dissolution. Astor, it was said,

[a] Ibid., p. 479.

"would go great lengths, partly from pride, and partly from wish to see the bank down." [a]

The most direct and pertinent testimony to show the disastrous consequences of nonrenewal was that submitted to the Senate committee by two delegations from Philadelphia, one representing the manufacturers and mechanics, the other the merchants of the city.[b] They were a unit in testifying to the impartiality of the bank, the desire for its continuance, the absence of party influence from its management, and the stagnation of business and prostration of credit which they believed would accompany dissolution. Some of the delegation of mechanics, all of whom were Democrats, had been customers of the bank for many years, and they united in contradicting the idea that the bank was partial or was influenced in the slightest by the politics of its customers. One of them said, explicitly, that in Philadelphia opposition to renewal was confined principally to the newspapers. The Aurora, the organ aud mouthpiece of the Democratic party in Philadelphia, but a bitter enemy of Gallatin, in an editorial, November 8, 1810, offered 20 reasons why the bank's charter should not be renewed. Great stress was laid upon the fact that two-thirds of the stock was held by foreigners and that the bank was subservient to British interests. Duane, the editor, charged the bank with employing its influence in local elections, especially at Charleston and New Orleans. The most novel reason suggested for winding it up, however, was "in order that the public should know how far it has fulfilled or how

[a] Gallatin to Madison, January 5, 1811, Writings, Vol. I, p. 495.
[b] Leg. and Doc. His., pp. 325-328.

far it has executed its trust; of which there are various opinions, which never can be reconciled but by a clear winding up."

Among the ablest advocates of renewal in the pamphlet literature of the day was Mathew Carey. His experience as a director of the Bank of Pennsylvania for several years gave authority to his utterances on financial topics. He complained that "the obligation of secrecy in banking transactions" precluded him from the use of many of the most important documents necessary to a complete defense of the bank. Duane, in the Aurora, and other opponents of the bank, charged it with deliberate and malicious attempts to depress the money market and, by curtailing discounts, to cause general business distress in order to force Congress into renewing its charter. Carey, however, in a series of letters to the Daily Advertiser, attributed the distress and the scarcity of money to the multiplication of branch banks in Pennsylvania (the Bank of Pennsylvania and the Bank of Philadelphia each had four branches), and to the necessity, recently imposed on the mother banks by act of the legislature, of receiving the notes of the branch banks in payment.[a] The notes of the branches were paid largely in Philadelphia for purchases, and when deposited in any except the mother banks acted as balances against them, drawing their specie. Only notes of the Bank of the United States were accepted in payment of duty bonds, so, in the spring and fall, there was a steady flow of specie to the bank from the four state banks, which compelled them to curtail their business somewhat. Moreover, the low rate of exchange on London

[a] November 2, 1810.

was an important factor. Exchange was at about five below par; recent extensive importations promised a rise, so a merchant having funds in England and who wanted money preferred to borrow from the banks at 6 per cent rather than to sell bills at the low rate. On the other hand, those who had remittances to make to England strained their credit at the bank to raise money to buy bills at the low rate. Hence both buyers and sellers of exchange, in unusual numbers, pressed the banks for additional loans.

In his letters to Doctor Seybert, Carey argued that, since the Government had sold to Sir Francis Baring $1,287,600 worth of bank shares at a premium of 45 per cent it would disgrace American credit not to recharter the bank. He admitted that there was ground for complaint in the fact that the bank had not accepted the notes of its branches in payment from its customers. It owed that accommodation to the public. He tried to turn the point of the criticism by stating that the Bank of Pennsylvania and the Bank of Philadelphia refused, in the same way, to receive the notes of their branches at Pittsburg and Washington until they were compelled to do so by an act of legislature. Carey's chief argument for renewal was the terrible calamity that would overtake the business community if the bank should be compelled to wind up.[a]

Dr. Eric Bollman was another ardent advocate of renewal. He estimated that the banks of the country had brought into use bank credits and bank notes amounting to $70,000,000 and that they held not over $15,000,000

[a] Letters to Dr. Adam Seybert, p. 64.

specie in their vaults. The winding up of the Bank of the United States would, therefore, involve the destruction of $55,000,000 of circulating medium, which was only sufficient for the daily transactions of the country. He thought Congress would not dare to make so dangerous an experiment.[a]

The state banks, though their note issues and discounts had been kept in check by the superior resources and power of the Bank of the United States, favored the extension of the charter, and memorialized Congress to that effect.[b]

A large majority of both branches of the Pennsylvania legislature, however, were opposed to the bank, and resolutions were passed requesting the Pennsylvania Senators and Representatives at Washington to vote against the renewal of the charter. They likewise opposed the granting of a charter to any other bank without securing the consent of the legislature of the State where it was to operate.[c] During the course of the debates on renewal, resolutions opposing renewal were presented from the legislatures of Virginia, Massachusetts, and Maryland.

Debate on Recharter.

The debate on the bank renewal in Congress centered mainly around the two questions of the constitutionality and expediency of the bank.[d] On the first point the arguments developed nothing new. The supporters of the

[a] Paragraphs on Banks, p. 50.

[b] See p. 79.

[c] House Journal (Pa.), December 13, 1810.

[d] For full debates, see Leg. and Doc. Hist., pp. 113–471.

bank met the long-drawn arguments of those who still persisted that it was unconstitutional by submitting that its constitutionality was decided at the time the charter was granted. That decision had met with the general approbation of the States and the people. Branches had been established in several of the States and the bills circulated everywhere. For twenty years the bank had received the countenance and patronage of the Government, which originally owned two-fifths of its capital. It had received repeated sanction from the different administrations, and especially from Jefferson and the Democratic party, by authorizing the establishment of a branch at New Orleans and selling a million of the government stock to British subjects at a profit of $400,000.

The debates on the expediency of the bank did throw some new light upon its methods and machinery and its relations to the Government, to the other banks, and to the general business public. In this connection it was argued that in proportion as the bank became a source of supply to the Government it ceased to be one to the merchants. Fisk, of New York, estimated that the exports of the country, which when the bank was established amounted to $18,000,000, had risen by 1804 to $76,000,000, an increase due in large part to the increased activity of capital created and promoted by the Bank of the United States. The bulk of the country's trade was conducted on a paper medium, specie having largely disappeared. By closing up the bank at least one-third of the $50,000,000 of circulating medium in the country would be checked and all paper credit would receive a mortal wound. The estimated $10,000,000 of specie in the country would, under dissolution, be collected by the bank. The result would be general embarrassment and distress.

It was generally conceded that the Bank of the United States, by virtue of its large capital and the amount of specie it always carried, had regulated the discounts and note issues of the state banks, compelling them to preserve a just proportion between their liabilities and actual funds. Senator Smith, of Maryland, a director of the state bank in Baltimore, and one of the most violent opponents of renewal, denied that the state banks either received or required any check by the Bank of the United States. He said the "trifling branch" of the bank in Virginia was located in a corner of the State with which the people of the State had very little intercourse. Their intercourse was with the banks of Richmond and Fredericksburg. The Bank of Virginia was capitalized at $1,500,000; it had $2,000,000 in its vaults and had recently declared a dividend of 10 per cent. He concluded that the Bank of Virginia received no check from the United States Bank, and instead of the branch of the latter keeping the state banks in check the fact was that the Bank of Virginia kept the branch at Norfolk in check.

Smith also denied the necessity or utility of the bank and its branches in the collection of government revenues, and contended that the bank had no instrumentality whatever in obtaining payment of the revenue bonds. He had been informed that nowhere was the revenue better collected than in the busy New England towns outside of Boston, the only place having a branch in the whole region. The Boston branch, then, was nothing more than a treasury chest, "an office where the Secretary of the

Treasury keeps an account to know whether the state banks transmit the money properly to Boston or not." So, too, in Georgia, North Carolina, and South Carolina the duties were as well or better paid where there was no branch. At one time the Bank of Manhattan, in New York, held $188,000 of government funds. The New York branch of the bank had refused to receive Connecticut or Rhode Island paper, and the Secretary was compelled to deposit it in the Manhattan Bank, which had agreed to accept the paper. Again, the branch bank at Washington had refused to accept Virginia paper from the collectors, "and refused to give any aid or assistance in the collection of the revenue, except that which went to their own emolument." But the Bank of Columbia opened its vaults to all, receiving on deposit the paper of Virginia, Maryland, or Pennsylvania, and gave checks on some of the banks of those States for the amount. This kind of accommodation could not be had from the branch bank. The revenues derived from the sale of public lands in Ohio and Kentucky were collected, not by the Bank of the United States, but by the Pittsburg branch of the Bank of Pennsylvania. The government deposits in the Manhattan Bank arose from the collection of revenues in Rhode Island and Connecticut. It was apparent, therefore, that the collection and transmission of public funds could be accomplished without the aid of the United States Bank or its branches.

Smith also denied that the notes of the bank formed a universal medium throughout the country. If a merchant in New York wanted to remit for a purchase of tobacco in Richmond, the New York branch could not aid him, but any of the state banks there would give him a draft on Richmond. Government funds would be transmitted in the same way. But the branch banks would not accept the paper of even the mother bank. Each branch was bound only to receive its own paper and not that either of the parent or any other branch. Recently the Baltimore branch had been called upon by the mother bank for specie. The branch applied to the Union Bank, which was in its debt, for $50,000 specie. The Union offered to meet the balance with notes of the mother bank, of which it held $100,000, but the branch would not accept them and demanded the specie. The Union was, therefore, compelled to send to Philadelphia for payment of the notes it held of that very bank. A similar transaction had occurred between the Mechanics' Bank of New York and the branch in that place. These cases showed that the paper of the Bank of the United States was "not a universal medium, not even payment to its own branches." In the interior the paper of the state banks, and of the state banks alone, was in circulation. Whether this were true or not, it is certain that the notes of no state bank possessed to anything like the same degree the quality of universality. One member declared the credit of any other bank in the country would be outridden in twenty-four hours.

Testimony as to the impartiality of the bank in granting loans, irrespective of party, was submitted both in committee and in Congress, but some of its opponents cited specific cases of partiality and political influence. Wright, of Maryland, asserted that Philadelphia merchants had been coerced into signing petitions to ratify Jay's treaty, against their convictions, under threat by the bank directors that if they refused they could get no more accommodation at the bank. Directors of the branch bank in Baltimore had been dropped from the directorate because they voted for General Smith. Evan Jones, who had been elected president of the branch bank at New Orleans to succeed a Republican, was a refugee Tory and was suspected of being "one of Burr's chosen band." Wright urged that "these directors, who by the charter have the right to establish as many branches in the United States as they please, say, one to each State, with the appointment of 13 directors, a president, and 7 officers to each branch, with as great accommodations as directors, and salaries to their officers averaging $1,000 a year each, making upward of $170,000 to their officers, and more to their directors," possessed a patronage larger than that of the President of the United States. "All the directors," he continued, "of the mother bank, at all times, have been Federal or worse—many of them Tories or Monarchists—so that being under such control, I have ever doubted the statement of its funds." This argument was met by the statement that an examination of the boards of the state banks would show that Federalists comprised a majority of the directors. Lloyd, of Massachusetts, testified that, though he had been unceremoniously dropped from the board of the branch bank at Boston a few years before, and so would not be accused of cordiality to the bank, he freely declared that from a personal knowledge of the management of that branch it was impossible for "any moneyed institution to be conducted with more correctness, integrity, and impartiality." Smith, of Maryland, read correspondence from New York to show that men employing large capital in importing had been refused accommodation by the branch bank there, "whilst the Manhattan Bank has freely discounted the paper which the branch rejected merely by reason of the contamination of passing through Republican hands." In Norfolk the conduct of the bank had never been considered impartial. Smith did not believe the statement which had been made that the Baltimore branch discounted as much for Republicans as for Federalists. He said also that for two sessions the Bank of the United States had its agents in Washington, intriguing with members of Congress to obtain a renewal of its charter.

Another member (Love) belittled the evils which it had been said would attend the dissolution of the bank. To prove their unreality he cited the discounts at the Boston and New York branches. At Boston the loans on a capital of about $700,000 amounted to about $1,000,000. Of these loans three-fourths were on real paper, which any bank or branch would be glad to take. There remained then only $250,000 "from what is called the standing customers." The United States Bank, because of the advantages the government deposits gave it, always had the choice of customers. Give to any other bank in the vicinity these deposits and they would be glad to take those customers off its hands, and to four times the amount if necessary. New York had loaned $4,175,000 on a capital of $1,800,000, the largest proportion of any of the branches. This had been done, the report of the bank to the contrary notwithstanding, on the immense deposits of revenue collected there. Give them to the state banks and they would gladly accommodate the "constant customers, not only to the amount of one-fourth, but to the whole $4,175,000."

Opponents of the bank admitted that its fate was a party question, and, since the Democrats had an assured majority in Congress, the friends to renewal recognized that the fate of the bank was sealed. Already agents of the state banks were in Washington fattening on the prospects of receiving government deposits. In the House of Representatives the renewal of the charter was indefinitely postponed, January 24, 1811, by a vote of 65 to 64. The vote in the Senate, February 20, stood 17 to 17. Vice-President Clinton, an enemy to both Gallatin and Madison, cast the deciding vote against renewal. Thus perished the first Bank of the United States.

Temporary Extension Refused.

After the final rejection of the bill to renew the charter, the bank memorialized Congress for an extension of two years to wind up its affairs. The memorial was presented simultaneously in the two Houses, February 25, 1811, and was referred to a select committee in each. Both reported against any extension. Clay, chairman of the Senate committee, reported that a majority held that, since the Constitution did not authorize Congress originally to grant the charter, any extension would be equally repugnant. There appeared to be no good reason for prolonging its political existence for the purpose of settling up its affairs. A trust could be created under existing laws by which liquidation could be effected. The committee had understood that the apprehensions as to the distress resulting from nonrenewal had not been realized in Philadelphia. The paper of the Bank of the United States was returning rapidly and the notes of the state banks were taking its place. Their ability to enlarge their accommodations would be increased by receiving the deposits held by the Bank of the United States. The injurious effects of a dissolution would "consist in an accelerated disclosure of the actual condition of those who have been supported by the credit of others, but whose insolvent or tottering situation, known to the bank, has been concealed from the public at large." The House committee made a similar report unfavorable to extension.

STATE CHARTER REFUSED.

The Bank of the United States closed its doors for business on the afternoon of March 3, 1811, and trustees were appointed to liquidate its affairs. But the bank was not ready to give up its existence. The trustees decided to petition the legislature of Pennsylvania for a state charter. On March 14, 1811, they sent a memorial to the legislature praying for an act of incorporation for the whole amount of the original capital, with permission to apply to other States for the privilege of establishing branches.[a] The memorial urged that it was impracticable to reduce the existing capital owing to the difficulty of discriminating or designating the stock to be retained. Stress was laid upon the almost total stagnation of business that had been produced by the failure of Congress to renew their charter. Great sacrifices of

[a] House Journal (Pa.), March 18, 1811.

property were being made to support individual credit, money rates were ruinously high, and the state banks were unable to meet the demand for loans. It was pointed out that the amount of capital employed by the Bank of the United States in Pennsylvania amounted to about a half of the total banking capital in the country. The withdrawal of so large a proportion of capital would be disastrous. One of the newspapers urged that if Pennsylvania did not "seize the opportunity of continuing that truly useful bank New York surely would."[a] It was reported that the bank offered to pay the State a bonus of $40,000 a year for a charter.

This application was defeated, but was renewed in the next legislature. A second memorial, signed by David Lenox, president of the board of trustees, December 7, 1811, was sent to the legislature, and a strong lobby was maintained in Harrisburg. The memorial stated that though the bank had stopped all banking operations, they had continued "their exertions for the preservation of credit." They had authorized the trustees, in making collections, "to require payment of but small portions at a time, and to receive new securities from their debtors for the residue." Only a part of these loans had been called in; the worst was yet to come if liquidation had to continue. Already considerable distress prevailed, business was stagnant, and bankruptcies frequent. Had the bank been in a position to come forward with aid, as it had done in former times of depression, much of the distress could have been averted. The petition urged that a large part of the stock was held by citizens

[a] Daily Advertiser, March 23, 1811.

and institutions of Pennsylvania. The foreign holdings, which had lately been considerably diminished, should not weaken the claim of citizens to legislative favor. The constitutional question which came up in connection with the federal charter could not arise in a state charter. If Pennsylvania refused a charter the trustees must secure it from some other state or states.[a] The trustees offered a cash bonus of $500,000, to aid certain specified public works, for a twenty-year charter of a bank with $5,000,000 capital, or proportionate amounts for any capital of $3,000,000 or upward. In addition, they offered to loan the State any time during the twenty years $500,000 at 5 per cent for internal improvements.[b] These liberal offers were all refused. Their very liberality accomplished their defeat. The feeling spread that to warrant such bids the profits of the banking business must be enormous, and that they ought to be enjoyed not by one large bank alone but by many small ones.

Charter Granted to New York Stockholders.

In the spring of 1812 the stockholders applied to the New York legislature for a charter for a bank to be established in New York City, to be called the Bank of America. Charges of bribery and corruption were rife while the bill was under discussion in the house, and to prevent its passage in the senate Governor Tompkins prorogued the legislature March 27, 1812, for a period of sixty days "to give time for reflection." When the legislature assembled again a bitter struggle ensued

[a] Ibid., December 30, 1811. [b] House Journal (Pa.), 1811–12, p. 302.

over the bill, but it finally passed by a vote of 16 to 15 on June 2, 1812. Under the terms of the charter the Bank of America was to have a capital of $6,000,000, consisting of $5,000,000 of the stock of the Bank of the United States and $1,000,000 in cash, subscriptions to which were not open to stockholders of the bank. For every share in the late Bank of the United States stockholders were entitled to subscribe four shares of the new institution. Dividends on shares of the Bank of the United States were to be collected free of expense and applied to subscriptions in the Bank of America. If the sale of the United States Bank stock produced more than par, $400, the surplus was to be refunded to subscribers; if less, subscribers would be required to pay the deficiency in money with interest at 6 per cent. The bank was to pay $400,000 to the State, and was bound to loan the State at any time $2,000,000, one half at 5 per cent, the other half at 6.[a] Subscription books were opened in 10 States, from June 6 to August 26. Oliver Wolcott, former Secretary of the Treasury, was made president, and Jonathan Burrall, former cashier of the New York branch of the Bank of the United States, cashier of the new concern. The bonus and the loans to the State required by the charter were subsequently remitted on the stipulation that the capital should be reduced to $4,000,000 and then to $2,000,000.[b]

[a] The Merchants' National Bank (New York), p. 89.

[b] Ibid.; advertisement in United States Gazette, April 15, 1812.

GIRARD'S BANK.

When the charter of the Bank of the United States expired in 1811, Stephen Girard, then the foremost merchant and the wealthiest man in the country, was the largest stockholder. Believing that the commercial and financial interests of the country would compel Congress to renew the charter, he had bought bank stock heavily both at home and abroad. Girard's purchases of foreign holdings came about in this way. For years the proceeds of his extensive shipments to Europe had been collected through the Barings, of London, against whom he drew from time to time. On December 31, 1809, his balance with the Barings amounted to £116,701, and he instructed them to invest his funds in shares of the Bank of the United States. His orders were not carried out until the following year, when he sent a special agent to London, who purchased over a half million of stock at a figure considerably below the market of the year before. In 1811 the indebtedness of the Barings to Girard amounted to nearly $1,000,000. The war between England and France made trade with Europe increasingly hazardous, and the Barings were on the verge of bankruptcy, so Girard sent two agents to London to extricate his immense funds from their hands. Part of the funds were invested in British goods, part in American 6 per cent stocks, and part in United States Bank shares, then at about $430⅛.[a] It is said that Girard's purchases of foreign holdings cost him in all $1,800,000.[b] Had the charter of the bank been renewed as he expected,

[a] Simpson, Life of Girard, p. 99.

[b] Leach, History of the Girard National Bank, p. 19.

Girard's profits upon this speculation would have netted him a fortune. In view of his very large holdings of the bank's stock, it might be easy to account for Girard's espousal of recharter on the ground of self-interest. Renewal would have materially enhanced the value of bank stock. But, though a strict Republican, Girard believed in the constitutionality of the bank, and, having been one of the largest borrowers, none knew better than he of its expediency and benefits to trade.

When renewal was denied by the federal authorities, Girard was active in the support of the movement for a state charter. This project having failed, he decided to establish a private bank of his own, thus becoming the foremost banker, as he was the foremost merchant, of the country. George Simpson, who had been for seventeen years the cashier, and, apparently, the real head, of the Bank of the United States was engaged to organize the bank, and when the work was completed Girard put him in charge as cashier and manager. He purchased the bank building and the cashier's house for $120,000, less than a third of their cost, and on May 12, 1812, he opened his banking house, with a capital of $1,200,000. On the 1st of January, 1813, the capital was increased to $1,300,000. The business of the trustees of the Bank of the United States was immediately transferred to Girard's bank, together with $5,000,000 in specie. The officers and clerks of the old bank were retained at the same salaries. Most of the customers of the Bank of the United States opened accounts with Girard's bank, which also retained a large part of the custom-house business.[a]

[a] Simpson, Life of Girard, p. 111.

Girard did not use the notes of the old bank, but paid out the notes of state banks until his own were ready. These bore the device of an American eagle and a ship under full sail. They were signed by Girard and countersigned by his cashier, and, though some of the banks at first refused to accept them, they finally came to be accepted as freely as other bank notes. Redemption in specie was never refused. To give to his bank something of the permanence of an incorporated institution, and to insure to depositors prompt payment in the event of his death, Girard executed a deed of trust vesting in five prominent citizens all the property of the bank.[a]

Undoubtedly the prompt establishment of Girard's bank did much to lessen the business distress which otherwise must have resulted from the liquidation of the Bank of the United States. It rendered invaluable aid to the Government in the financial difficulties of the next few years. "Girard's bank was the very right hand of the national credit, for when other banks were contracting, it was Girard who stayed the panic by a timely and liberal expansion, and frequent were the calls made upon him by the Government for temporary loans, which calls were invariably responded to immediately."[b]

Girard's bank continued in successful operation until his death, December 26, 1831, when the trustees wound up its affairs, turning over to the executors money, securities, and property to the value of more than $4,000,000. To occupy the field made vacant by the liquidation of Girard's bank, a group of capitalists organized a bank,

[a] Leach, History of the Girard National Bank, p. 20. [b] Ibid., p. 24.

called the "Girard Bank," and secured a state charter in 1832. It continued as a state institution until 1865, when it entered the national banking system.

FISCAL OPERATIONS AFTER DISSOLUTION OF BANK.

As soon as it was ascertained that the charter of the Bank of the United States would not be renewed, Gallatin instructed the collectors of all the leading ports to stop depositing custom-house bonds for collection in the bank, to withdraw those falling due after March 3, 1811, and thereafter to deposit the bonds in state banks. The only condition imposed upon these depositories was that they should give a preference in discounts to those having duty bonds to pay. The public deposits in the Bank of the United States were gradually withdrawn, and the government account was closed September 2, 1811, with the exception of a balance of $70,000 in the New Orleans branch, for which a credit had been given some months before to the agents of the War and Navy Departments and which had not yet been drawn upon. By this time the government deposits were divided among 21 banks. In December, 1811, Gallatin reported that there had been no difficulty in the transmission of public money, and that with the exception of Norfolk and Savannah the revenue had been as well collected as under the Bank of the United States. [a]

In his report, January 23, 1811, Gallatin expressed a doubt whether, in the event of the dissolution of the bank, its notes would continue to be receivable in payments to the United States. He suggested the propriety of some

[a] Finance, Vol. II, pp. 516–522.

legislation which would remove all doubt on the subject. Congress took no action on the question, but Gallatin instructed the collectors and receivers of public money not to accept any which the bank refused to take from the Government, or which they could not conveniently redeem. The circuit court of Virginia, however, had recently decided that the notes of the bank were everywhere a legal tender in payment of duties. Inasmuch as a considerable amount of the notes of the New Orleans, Savannah, and Charleston branches was outstanding and would be forced on the Treasury at considerable risk and expense to collect, Gallatin urged the immediate repeal of that part of the law which, according to the recent decision, was considered as being in force. Accordingly, on March 19, 1812, Congress passed an act repealing the section of the bank act providing that notes of the Bank of the United States were legal tender in payment to the United States. By the act of June 30, 1812, treasury notes were made legal tender to the Government.

Seybert states that on March 4, 1816, there were still $217,160 of United States Bank notes outstanding, of which many had been destroyed or lost.[a] In 1823 the amount of notes still unpresented was $205,000. By decree of the court the trustees were then released from further obligation to redeem outstanding notes. A fund of $5,000 was reserved to meet cases of peculiar hardship. Up to 1839 the whole amount presented for redemption was about $1,100, most of which had been in the hands of an invalid Revolutionary soldier. Niles reports the redemption of a $10 note in 1839.[b]

[a] Statistical Annals (1818). [b] Niles Register, Vol. LVI, p. 273.

LIQUIDATION.

The work of liquidating the bank was carried on with considerable dispatch and without the dire financial disturbances apprehended.

The following table shows the progress of liquidation in the first year after dissolution:[a]

	Jan. 1, 1811.	Mar. 1, 1811.	Sept. 1, 1811	Mar. 1, 1812.
Loans and discounts	$17,759,001	$14,587,134	$7,152,786	$3,792,795
Specie	5,317,885	4,835,702	4,500,527	6,116,776
Public deposits	6,474,402	2,874,833	322,349	81,517
Private deposits	3,855,402	3,583,596	448,112	223,442
Notes in circulation	6,070,153	6,552,875	2,963,209	1,070,459

Thus it appears that in the first six months of liquidation the bank collected over $7,000,000 of its loans and discounts; paid off practically all of its public and private deposits; and redeemed $3,600,000 of its bank notes, yet its stock of specie fell only $335,175. In the first year it paid over $11,600,000, and its specie increased nearly $1,300,000. The discounts were reduced nearly $10,000,000 and the circulating notes $6,500,000.

On June 1, 1812, the trustees declared a dividend of 70 per cent of the capital. Stockholders in the States where branches had been established were paid by draft on the respective branches. All others were paid at Philadelphia.[b] October 1, 1812, another dividend of 18 per cent was paid, and a third one of 7 per cent on April 1, 1813, making 95 per cent within about two years after dissolution. Subsequent dividends were paid as follows: Five per

[a] Minority report (Ways and Means Committee) on Renewal of the Deposits, March 4, 1834, 23d Cong., 1st sess., No. 313.

[b] Advertisement, United States Gazette, April 15, 1812.

cent, April 3, 1815; 4 per cent in 1817; 1¾ per cent in 1820; 2¼ per cent in 1823; ½ per cent in 1830; ½ per cent in 1834, making a total of 109 per cent on the original capital. Raguet calculated that if these dividends, made at such long intervals, were regarded as deferred payments, compounded semiannually, the actual return to stockholders was only 97 per cent on the day the charter expired.[a] Some years before the stock had sold at 156.

In 1834 the city councils of Philadelphia appointed a committee to determine the best way to close the trust of the old bank in order to get possession of the house which had been willed to the city by Girard, but which was still occupied, rent free, by "the late cashier of Girard's Bank." The committee brought in a report February 12, 1835, showing that on June 25, 1812, Girard had executed a lease to the trustees of the old bank of parts of the bank and the cashier's dwelling until the affairs of the bank should be closed. The bank building had already passed to the city and was leased to the Girard Bank. Finding that possession of the dwelling depended upon the closing up of the trust, the committee procured a copy of the most recent statement of the trustees. This showed $22,564 still in the hands of the trustees, after a recent dividend of $51,250. There were still several debts due from estates in the hands of assignees. It was thought that most of the $22,564 had been in the hands of the trustees unclaimed for nearly twenty years and that it would be difficult to reach those entitled to it. The unclaimed balance would be increased by every suc-

[a] Gouge, Journal of Banking, p. 239.

cessive dividend and the trust would be protracted indefinitely. The committee, therefore, recommended that the city take over the trust and have it administered by the commissioners of the Girard estate.

CONSEQUENCES OF DISSOLUTION.

Although the failure to renew the charter of the Bank of the United States was not followed immediately by the train of dire disasters predicted by its friends, the march of events was soon to bring the country and the Government to the edge of bankruptcy, which the perpetuation of the bank might have averted. No higher authority than Gallatin's need be presented upon this point. Writing in 1831, he said: "The dissolution of the Bank of the United States deprived the country of a foreign capital of over $7,000,000, which was remitted abroad during the year that preceded the war. At the same time the state banks had taken up a considerable part of the paper formerly discounted by that of the United States. As the amount of this exceeded $15,000,000, their aid was absolutely necessary in order to prevent the great distress which must have otherwise attended such diminution of the usual accommodations. The creation of new state banks to fill the chasm was a natural consequence. The expectation of great profits gave birth to a much greater number than was wanted. * * * From January 1, 1811, to January 1, 1815, 120 new banks went into operation, with a capital of $40,000,000, adding about $30,000,000 to the banking capital of the country. * * * And as the salutary regulating power of the Bank of the

United States no longer existed, the issues were increased beyond what was necessary." [a]

Gallatin made the following estimate of the banking facilities at the dates mentioned:

	Year.	Capital.	Notes in circulation.	Specie.
Bank of the United States	1811	$10,000,000	$5,400,000	$5,800,000
88 state banks		42,610,601	22,700,000	9,600,000
		52,610,601	28,100,000	15,400,000
208 state banks	1815	82,259,590	45,500,000	17,000,000
246 state banks	1816	89,822,422	68,000,000	19,000,000

The Government was compelled to rely upon the state banks for aid during the war of 1812, and their universal suspension of specie payments in 1814 almost paralyzed the operations of the Treasury. The notes of the state banks did not pass current out of their own locality, and it became impossible to make transfers of funds, public or private, from one part of the country to another. In the essay quoted above, Gallatin expressed his deliberate opinion that the suspension of specie payments might have been prevented if the Bank of the United States had still been in existence. He believed that the enormous increase of banks occasioned by the dissolution of the bank would not have occurred. That bank would have restrained their issues within proper bounds, and, "through the means of its offices, it would have been in possession of the earliest symptoms of approaching danger. It would have put the Treasury Department on its guard; both acting in concert would certainly have been able at least to retard the event; and, as the treaty of peace was

[a] Writings, Vol. III, p. 284.

ratified within less than six months after the suspension took place, that catastrophe would have been altogether avoided."

Bank Reports.

In the early days of banking a veil of mystery was thrown over the operations of banks, and the general public knew but little of their nature or modus operandi. Even the Bank of the United States, semipublic institution though it was, published no reports. Under the terms of its charter it was required to make reports of condition to the Secretary of the Treasury when called for, but not oftener than once a week. There is indisputable evidence that reports were made regularly, but they were not given to the public.[a] In the debates of 1811, after twenty years of the bank's contact with the public and the Government, the statement was made, and passed unchallenged, that "the nature of the loans, the deposits, and all the bargains, dealings, and contrivances between the Government and the bank are wholly invisible to the public." Even those friendly to the bank, and eager to defend it, were unable to procure the facts and figures necessary for an adequate defense.[b]

The Treasury officials, during the entire time of its existence, gave out no statement of its affairs except when Congress called for information. Unfortunately, only two reports of resources and liabilities have been preserved. A careful search has failed to reveal any trace of the original books and records of the bank. The two surviving reports on the bank were made to Congress by

[a] See Appendix E. [b] See p. 84.

Gallatin, one in 1809, the other in 1811, while Congress was considering the bank's petition for a renewal of its charter.

The financial statement of the bank's condition in January, 1809, as stated in Gallatin's report of March 3, 1809, gives the actual amount of public stock, real estate, and undivided surplus, but loans, deposits, specie and notes are "average" amounts. The amount of specie on hand and the deposits at the time of this report were actually several million dollars in excess of this "averaged statement," both having been increased considerably above normal amounts by the embargo and by the unusually large Treasury balance which was principally on deposit in the bank.

Financial statement of Bank of United States.

	January, 1809.[a]	January, 1811.[b]
RESOURCES.		
Loans and discounts	$15,000,000	$14,578,294
United States 6 per cent stock	2,230,000	2,750,000
Other United States indebtedness	----------	57,046
Due from other banks	800,000	894,145
Real estate	480,000	500,653
Notes of other banks on hand	----------	393,341
Specie	5,000,000	5,009,567
Total	23,510,000	24,183,046
LIABILITIES.		
Capital stock	10,000,000	10,000,000
Undivided surplus	510,000	509,678
Circulating notes outstanding	4,500,000	5,037,125
Individual deposits	8,500,000	5,900,423
United States deposits	----------	1,929,999
Due to other banks	----------	634,348
Unpaid drafts outstanding	----------	171,473
Total	23,510,000	24,183,046

[a] Finance, Vol. II, p. 352. [b] See p. 112.

The balance of $510,000, the amount of undivided profits, commonly called the "contingent fund," was reserved "to cover losses which may arise from bad debts or other contingencies, and for extra dividends." Commenting upon this statement, Gallatin says: "The affairs of the bank, considered as a moneyed institution, have been wisely and skillfully managed."[a]

In obedience to a House resolution, Gallatin submitted a statement, January 9, 1811, of debts due the Bank of the United States by individuals and by other banks, of the amount of notes of the bank and its branches in circulation, and of the Treasury cash in the different depositories.[b] Gallatin notes again that the only statements which the Treasury could require of the bank, under the act of incorporation, were the amount of capital stock, debts due the bank, deposits, notes in circulation, and cash on hand. He had no right to ask for the accounts of private individuals or for any other than these general statements. The bank statement is as follows:

[a] Report to Senate, March 3, 1809, Finance, Vol. II, p. 352.
[b] Ibid., p. 460.

A.—*Debts due by indidviuals and banks.*

	Date.	Due by individuals.				Due by banks.			
		Bills and notes discounted.	Bills and notes in suit.	Bonds.	Total.	Deposited in other banks.	Due to other banks.	Balance due by other banks.	Bank notes of other banks on hand.
Philadelphia	Jan. 1, 1811	$5,123,690.00			$5,123,690.00	$175,766.00	$28,982.00	$146,784.00	$191,895.00
Boston	Dec. 22, 1810	1,306,366.88			1,306,368.88	320,000.00	142,000.00	178,000.00	26,750.00
New York	Dec. 29, 1810	4,068,625.01		$71,500.00	4,140,125.01	480,504.00		480,504.00	
Baltimore	Dec. 29, 1810	1,100,265.04			1,100,265.04	383,543.72	193,067.51	190 476.21	71,131.66
Washington	Dec. 29, 1810	390,911.64	$21,982.20		412,893.84	160,426.06	3,057.03	157,369.03	31,142.40
Norfolk	Dec. 22, 1810	674,997.20	43,118.34		718,115.54	70,156.26		70,156.26	31,890.00
Charleston	Dec. 15, 1810	711,315.92	89,063.62	149,929.86	950,309.40	73,000.00		73,000.00	111,240.00
Savannah	Dec. 15, 1810	772,729.48			772,729.48				23,095.00
New Orleans	Nov. 24, 1810	601,689.85			601,689.85	21,734.00		21,734.79	24,765.00
Total		14,750,593.02	154,164.16	221,429.86	15,126,187.04	1,685,130.83	367,106.54	1,318,024.29	511,909.06

Bills and notes discounted, and bonds due by individuals, as above	$15,126,187.04
Balance due by other banks	1,318,024.29
Bank notes of other banks on hand	511,909.06
Overdrawn by commissioners of loans (circumstances not explained)	32,579.07
Treasury drafts on collectors and other banks not yet collected	31,446.01
Converted 6 per cent stock, as per Treasury books	23,066.23
	17,043,231.70
Loan to the United States, December 31, 1810	2,750,000.00
	19,793,231.70

B.—*Notes in circulation.*

	Date.	Issued.	On hand.	In circulation.
Philadelphia	Jan. 1, 1811	$1,708,013	$101,750.00	$1,606,263.00
Boston	Dec. 22, 1810	451,435	207,036.34	244,398.66
New York	Dec. 29, 1810	1,223,300	179,421.00	1,043,879.00
Baltimore	Dec. 29, 1810	386,505	216,855.00	169,650.00
Washington	Dec. 29, 1810	288,880	33,114.83	255,765.17
Norfolk	Dec. 22, 1810	300,140	77,922.00	222,218.00
Charleston	Dec. 15, 1810	792,565	3,850.00	788,715.00
Savannah	Dec. 15, 1810	850,800	216,450.00	634,350.00
New Orleans	Nov. 24, 1810	192,140		192,140.00
Total		6,193,778	1,036,399.17	5,157,378.83

C.—*Government deposits in various banks, January 7, 1811.*

Bank of the United States (Philadelphia)	[a] $161,557.64
Office of discount and deposit at—	
Boston	[a] 336,264.77
New York	[a] 551,988.51
Baltimore	[a] 272,293.77
Washington	[a] 65,776.42
Norfolk	[a] 14,006.36
Charleston	[a] 29,084.99
Savannah	[a] 46,841.63
New Orleans	[a] 166,701.55
Bank of—	
Maine, (Portland)	[b] 37,392.38
Saco	[b] 26,409.53
Newport	[b] 34,843.49
Roger Williams (Providence)	[b] 43,382.79
Manhattan (New York)	[c] 188,670.32
Pennsylvania (Philadelphia)	[d] 92,628.17
(Pittsburg branch)	[d] 137,442.11
Marietta	p 11,242.25
Kentucky (Frankfort)	[d] 75,137.88
Columbia (Georgetown)	[e] 115,080.15
Alexandria	[f] 86,917.90

While the debate on renewal was in progress in the House, Gallatin was requested to submit a statement giv-

[a] The collectors of Philadelphia, New York, etc., were directed by act of May 10, 1800 to deposit for collection in the Bank of the United States or one of its branches all revenue bonds.

[b] The deposits in these banks arose from payments made by several collectors in Maine and Rhode Island.

[c] This deposit arose from occasional collections of surplus revenue in Rhode Island and Connecticut.

[d] Deposits by receivers of public moneys on account of sales of public lands.

[e] This deposit due to occasional drafts on some collectors in Virginia, and from the receipt of moneys paid at the treasury for lands, patents, etc.

[f] Due to payments made by the collector at Alexandria.

ing a list of the directors of the bank and its branches, the amount of stock held by foreigners and by citizens, and the amount of specie on hand, distinguishing between that belonging to the bank, to individuals, and to the Government. The Secretary, in his report, January 24, 1811, again pointed out that he could require from the bank only general statements, which did not include either the names of directors or the residences of the stockholders.

His report included the following statement of the bank's resources and liabilities, the only complete, detailed report extant.[a] Many of the figures, it will be observed, are for dates only a few weeks apart from those for which returns were given in the previous statement:

RESOURCES.

Loans and discounts			$14,578,294.36
Loan to the United States		$2,750,000.00	
Funded debt		14,338.00	
Overdrafts by Charleston commissioner		31,242.48	
Treasury drafts not yet collected		11,466.01	
			2,807,046.49
Due by other banks		894,144.77	
Notes of other banks on hand		393,341.15	
			1,287,485.92
Specie			5,009,567.10
Real estate			500,652.77
			24,183,046.54

LIABILITIES.

Capital			10,000,000.00
Circulating notes		$5,037,125.22	
Deposits:			
Government	$1,929,999.60		
Banks	634,348.01		
Individual	5,900,422.83		
		8,464,770.44	
Outstanding drafts on bank and branches		171,473.17	
			13,673,368.83
Undivided surplus			509,677.71
			24,183,046.54

[a] Finance, Vol. II, p. 470.

The following table shows in detail how these resources and liabilities were divided among the bank and the several branches:

	Date.	Discounts.	Due by banks.	Notes of other banks.	Specie.	Sundries.	Deposits.			Bank notes.		
							Treasury.	Banks.	Individuals.	Issued.	On hand.	In circulation.
Bank of the United States	Jan. 15, 1811	$4,981,373.00	$79,177.00	$137,570.00	$1,407,373.00	[a] $2,764,338.00	$392,909.24	$140,765.00	$2,560,864.25	$1,687,893.00	$126,060.00	$1,561,833.00
Boston	Jan. 5, 1811	1,138,923.59	61,000.00	45,610.00	474,497.38	[b] 466.01	341,054.47	241,000.00	825,000.11	435,680.00	259,248.39	176,431.61
New York	Jan. 12, 1811	3,919,628.98	76,420.00		571,520.42		625,417.09	29,860.00	878,451.11	1,254,530.00	176,540.00	1,077,990.00
Baltimore	do	1,108,542.36	330,454.54	86,292.71	604,398.46		199,201.28	215,991.23	84,057.38	371,865.00	210,822.56	161,042.44
Washington	do	412,161.60	146,376.86	16,465.84	297,615.83		101,895.55	6,731.78	539,993.04	297,860.00	36,414.83	261,445.17
Norfolk	Jan. 5, 1811	713,724.40	3,300.34	28,362.60	307,596.40	[b] 11,000.00	16,483.76		112,303.28	283,900.00	77,232.00	206,668.00
Charleston	Dec. 29, 1810	935,713.92	186,000.00	24,000.00	459,181.62	[c] 31,242.48	36,645.03		491,678.93	802,735.00	12,500.00	790,235.00
Savannah	do	768,681.97		21,225.00	602,879.41		49,691.63		196,854.86	825,950.00	216,610.00	609,340.00
New Orleans	Dec. 8, 1810	599,544.44	11,416.03	33,815.00	284,504.58		166,701.55		211 219.87	192,140.00		192,140.00
Total		14,578,294.26	894,144.97	393,341.15	5,009,567.10	2,807,046.49	1,929,999.60	634,348.01	5,900,422.83	6,152,553.00	1,115,427.78	5,037,125.22

[a] Loan to United States	$2,750,000
Funded debt	14,338
Total	2,764,338

[b] Treasury drafts not yet collected.
[c] Overdraft by late commissioner of loans, Charleston.

An analysis of these statements will serve to throw some interesting side lights upon the condition and operations of the bank and its branches. Of the total resources, aggregating over $24,000,000, the chief items were loans, $14,500,000; specie, $5,000,000; and government indebtedness, $2,800,000. The latter consisted chiefly of a 6 per cent loan of $2,750,000 obtained in 1810. This loan had been at first negotiated, May 30, for $3,750,000, but the treasury expenses having proved less than was anticipated, the loan was, by mutual consent, reduced in October to $2,750,000. It was reimbursable on the last day of December, 1811, with a reservation that the bank might, in case of nonrenewal of its charter, demand earlier payment on giving three months' notice.[a] The Government repaid this loan in March and September, 1811.

The following table, based upon the foregoing statement, shows the amount of loans of the bank and its branches with relation to capital, deposits, and notes in circulation:

	Capital.	Discounts.	Deposits.	Notes.
Philadelphia	$4,700,000	$4,981,373	$3,094,538	$1,561,833
Boston	700,000	1,138,923	1,507,054	176,431
New York	1,800,000	3,919,628	1,633,728	1,077,990
Baltimore	600,000	1,108,542	499,249	161,042
Washington	200,000	412,161	648,620	261,445
Norfolk	600,000	713,724	128,787	206,668
Charleston	600,000	935,713	528,323	790,235
Savannah	500,000	768,681	246,546	609,340
New Orleans	300,000	599,544	377,921	192,140
Total	10,000,000	14,578,294	8,464,770	5,037,125

[a] Gallatin's annual report, December 10, 1810, Finance, Vol. II, p. 441.

Of the total discounts, over three-fifths stood on the books of the Philadelphia bank. Boston and Baltimore each carried over $1,000,000 of loans, and Charleston nearly as much, followed in order by Savannah, Norfolk, New Orleans, and Washington. In every case excepting Boston and Washington discounts exceeded deposits, and in New York, Baltimore, and Savannah discounts were slightly in excess of the combined capital and deposits. In this respect, the mother bank made the most conservative showing with discounts of nearly $5,000,000 against capital and deposits of about $7,800,000. This was due to the fact that the parent held itself responsible for all of the eight scattered branches, and limited its discounts carefully in order to be in a position to aid any of the branches if occasion should arise.

At the time of this report, the various state banks owed the Bank of the United States $894,000, while their deposits in the latter amounted to $634,000, leaving only a small balance in their favor. The Baltimore branch was the largest creditor of the state banks, which owed it about a third of a million. The bank also held $393,000 of the notes of state banks. Of the $5,000,000 specie on hand, the parent bank held nearly one-third, the Baltimore, Savannah, and New York branches having about one-half as much. Years later, it was said that at one time the New York branch had less than $10,000 in specie in its vaults.[a]

The aggregate deposits of $8,500,000 consisted of government deposits, $1,900,000; individual deposits, $5,900,000; bank balances, $600,000. New York held

[a] Gouge, Journal of Banking, p. 252.

$625,000 of treasury funds, about one-third of the total, followed by Philadelphia with $393,000, and Boston with $341,000. Of bank balances, Boston and Baltimore each had something over $200,000; Norfolk, Charleston, Savannah, and New Orleans had none. The parent bank had individual deposits amounting to over $2,500,000, nearly one-half of the total; New York stood second, and Boston third, with over $800,000 each; Baltimore had only $84,000, while the small Washington office had over half a million. At this date the undivided profits of the Bank of the United States amounted to $509,677.

Profits and Dividends.

On April 4, 1810, Gallatin submitted to the Senate a list of dividends declared by the bank down to January 1 of that year. In addition to the semiannual dividend of 4 per cent, some extra dividends were declared, making an average of $8\frac{13}{36}$ per cent. At the date of this report, the bank had a surplus of $409,410, made up of "general bank estate," $125,000, intended as an offset against loss on the bank's real estate, which had been paid for out of the capital and not out of profits; and "contingent fund," $284,410, to cover possible losses. As to the actual profits of the bank and its branches, Gallatin said: "The nominal profits resulting to the bank from each of its offices of discount and deposit could not be ascertained without an investigation of all the weekly returns made to this department; and there are no returns from which the actual loss sustained by each office can be known." Estimating annual expenses at $125,000, "the losses must in the whole have amounted to about $35,000 a year."

The following table shows the capital and the loans of the parent bank and the several branches, according to the most recent returns at the time of this report, April 4, 1810:[a]

	Capital.	Notes discounted.
Boston	$700,000	$998,859
New York	1,800,000	4,175,874
Baltimore	600,000	1,349,550
Washington	200,000	485,285
Norfolk	600,000	880,170
Charleston	600 000	1,409,916
Savannah	500,000	1,054,113
New Orleans	300,000	611,517
Philadelphia:		
Balance due in account current by branches	750,000	
Capital reserved	3,950,000	4,572,586
Funded debt		1,411,627
Total	10,000,000	16,949,497

With these figures as a basis, Gallatin estimated the annual expenses and losses of the bank as follows: Six per cent on the $17,000,000, the amount usually loaned on interest, amounted to $1,020,000. The dividends on the $10,000,000 at $8\frac{13}{36}$ per cent would be $836,111, and the undivided profits ($409,410 on January 1, 1810, divided by eighteen, the years of the bank's existence), $22,745; subtracting these two sums there remained $161,448, the annual amount of expenses and losses. Of this amount, Gallatin had estimated $125,000 for annual expenses, which left $36,448 a year for actual losses. This loss of less than one-half of 1 per cent per annum on bad debts speaks strongly for the conservative management of the bank's affairs. Long after the bank had disap-

[a] Finance Vol. II p. 418.

peared one authority estimated its average annual losses, during the twenty years of its existence, at sixty-one one-hundredths of 1 per cent.[a]

In the debates of 1811, the accuracy of Gallatin's statement of the profits of the bank was challenged. It was contended that the bank had concealed its real profits under charges to the loss and contingency accounts, and that its actual net profit was over 11 per cent. It was argued that the branches had made a gross profit of more than 13 per cent. These had a total capital of $5,300,000 and discounts of $11,964,000, but the mother bank, which retained a capital of $4,700,000, granted discounts of only $4,572,000. It was well known, however, that bank capital had been as profitably used in Philadelphia as in any other city, and the state banks unaided by government deposits had yielded dividends so large as to send their stock to 35 to 50 per cent premium. It was thought, therefore, that "after the deduction for losses (that probably never happened) and contingencies never expected to take place," the net profit was more than 11 per cent instead of 8⅜ per cent, as had been reported by the Secretary. (Love.) On the other hand, it was contended that the parent bank had to have at all times sufficient reserve to meet every emergency, and so could not extend its discounts too far. A branch that produced no profit but sometimes actual loss might be just as expensive to maintain as one that was productive. The experience of only the most profitable branches had been cited by the critic; others might show a considerable loss. (Finley.) The complete record of dividends shows

[a] H. C. Carey: The Credit System.

that Gallatin's estimate, based upon the report of the bank, was substantially correct.[a]

The first few dividends declared by the Bank of the United States were quite low in contrast with those of the Bank of North America. Up to 1800, dividends at the rate of 8 per cent were paid, with an extra dividend of 1 per cent in January, 1798. In 1801, 10 per cent was distributed, 9 per cent in 1802, and 8½ per cent in 1803 and 1804. Thereafter 8 per cent was the regular dividend, excepting for the year 1807, when 10 per cent was declared.

The largest annual dividend of the Bank of the United States was 10 per cent in 1801 and in 1807; the lowest 7⅝ per cent in 1793. In 1792, the Bank of North America declared a dividend of 15 per cent; in 1793, 13 per cent; and from 1794 to 1799, inclusive, 12 per cent; 1800, 1801, 1802, 10 per cent; 1803, 9½ per cent; 1804 to 1810, 9 per cent. The Bank of Pennsylvania, established in 1794, started with 8 per cent, then rose to 10 for one year, dropped to 9½ for three years, then to 8 for six years, up to 9 for seven years, returning to 8 as the regular dividend. The uniform dividend of the Philadelphia Bank, established in 1804, was 8 per cent; also that of the Farmers and Mechanics', which opened in 1808.[b]

Taxation.

In 1797, a federal tax of 6 mills on the dollar was laid on the notes of all banks below $50, with lower rates on the higher denominations. Provision was made that the tax might be commuted at 1 per cent on the dividends.

[a] See Appendix C.

[b] Carey's Letters to Seybert, Appendix D.

The Bank of North America and probably other banks paid the tax by the latter method.[a]

In 1805, the legislature of Georgia passed a law taxing the branch of the Bank of the United States at Savannah. The bank refused to pay the tax, whereupon the state officers seized two boxes of specie worth $2,004. The bank brought an action for trespass in the circuit court, which rendered a decision in favor of the defendant on a demurrer. The case was appealed to the Supreme Court of the United States, where it became involved in technicalities. Georgia then desisted until it should be decided whether the bank was to be rechartered.[b] The question of taxing the bank was mooted in the Pennsylvania legislature, but no action was taken.

CONSERVATISM, A CHARACTERISTIC.

Conservatism, verging at times upon extreme and unnecessary caution, characterized the management of the bank's affairs, restricting both its full usefulness to the business community and its returns to the stockholders. Soon after the establishment of the second Bank of the United States, in 1817, which was much more liberal in its general policies, President Jones, writing to William H. Crawford, Secretary of the Treasury, said: "I am not at all disposed to take the late Bank of the United States as an exemplar in practice; because I think its operations were circumscribed by a policy less enlarged, liberal, and useful than its powers and resources would have justified. * * * It had but few powerful competitors, and these were rendered harmless by the cau-

[a] Minutes, Bank of North America, September 28, 1797.
[b] Sumner, History of Banking in all Nations, p. 48.

tious policy of its directors and the narrow sphere of its operation."[a]

The bank adopted a system of permanent loans to both individuals and banks.[b] These permanent accommodations were well-nigh universal in the practice of the early banks, and were even more stifling to progress and impartial service then than in our own day because of the limited sources of loanable funds. The enormous permanent loans to the Government during the first few years of the bank's life prevented it from serving the business interests of the country as fully as it might otherwise have done, and were an incubus which it finally shook off only by making the most unqualified demand for payment. It would have been better, probably, had the bank taken the same firm stand with other accommodation borrowers. The charges of partiality in making loans, which were made against the bank in the debates of 1811, do not seem to have been well sustained. The Philadelphia delegations of mechanics and manufacturers who went to Washington to urge a renewal of the charter testified that the bank was impartial in its accommodations.[c]

There is some ground for the belief that, in the case of the parent bank, at least, large importers and traders of the type of Stephen Girard were accommodated before the needs of the retailer and shopkeeper were served. Because of the additional resources arising from the government deposits the bank had "the choice of customers." The New York branch was accused of refusing accommodations to importers who were perfectly acceptable to

[a] Finance, Vol. IV, p. 807. [b] Ibid., p. 774. [c] See p 83.

the Manhattan Bank there, and the Norfolk and Baltimore branches were charged with similar partisan partiality.[a] These refusals, however, may have been based upon perfectly good and sufficient business circumstances. In the main, the bank as far as its resources and the exigencies of the times would permit, met all the reasonable demands of borrowers at a fair rate of interest. It was largely instrumental, therefore, in repressing the practice of usury, which had long preyed upon legitimate business.

It was estimated in 1811 that the total specie supply of the country amounted to only $10,000,000. Of this sum the Bank of the United States held more than $5,000,000, which gave it a powerful influence over all other banking institutions. In some sections the state banks had much larger resources and conducted a much more extensive business than the branch in that section, yet behind the branch there always loomed the shadow of the big bank, whose enmity no other institution willingly incurred. But, though the powerful Bank of the United States tended to restrain the smaller banks, compelling them to keep within the limits of conservative business, yet it was always friendly and ready to aid them when unexpectedly pressed, and "generally they had the use of not less than one-tenth of its capital."[b] By virtue of its large resources and its numerous branches it was able to equalize the benefits of large loanable capital throughout the country and to relieve any sudden pressure in trade much more effectively than the state banks were able to do.[c]

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[a] See p. 92.
[b] Second petition for renewal, p. 76.
[c] Memorial of the Bank of New York, p. 79.

Appendix A.

Act of Incorporation.

(February 25, 1791.)

AN ACT to incorporate the subscribers to the Bank of the United States.

Whereas, it is conceived that the establishment of a bank for the United States, upon a foundation sufficiently extensive to answer the purposes intended thereby, and at the same time upon the principles which afford adequate security for an upright and prudent administration thereof, will be very conducive to the successful conducting of the national finances; will tend to give facility to the obtaining of loans for the use of the Government in sudden emergencies; and will be productive of considerable advantages to trade and industry in general: Therefore—

Section 1. *Be it enacted, etc.*, That a Bank of the United States shall be established, the capital stock whereof shall not exceed ten million dollars, divided into twenty-five thousand shares, each share being four hundred dollars; and that subscriptions toward constituting the said stock shall, on the first Monday of April next, be opened at the city of Philadelphia, under the superintendence of such persons, not less than three, as shall be appointed for that purpose by the President of the United States (who is hereby empowered to appoint the said persons accordingly), which subscriptions shall continue open until the whole of the said stock shall have been subscribed.

Sec. 2. *And be it further enacted,* That it shall be lawful for any person, copartnership, or body politic to subscribe for such or so many shares as he, she, or they shall think fit, not exceeding one thousand, except as shall be hereafter directed relatively to the United States; and that the sums respectively subscribed, except on behalf of the United States, shall be payable one-fourth in gold and silver and three-fourths in that part of the public debt which, according to the loan proposed in the fourth and fifteenth sections of the act entitled "An act making provision for the debt of the United States," shall bear an accruing interest at the time of payment of six per centum per annum, and shall also be payable in four equal parts, in the aforesaid ratio of specie to debt, at the distance of six calendar months from each other, the first whereof shall be paid at the time of subscription.

Sec. 3. *And be it further enacted,* That all those who shall become subscribers to the said bank, their successors and assigns, shall be, and are hereby, created and made a corporation and body politic by the name and style of the president, directors, and company of the Bank of the

United States, and shall so continue until the fourth day of March, one thousand eight hundred and eleven; and by that name shall be, and are hereby, made able and capable in law to have, purchase, receive, possess, enjoy, and to retain to them and their successors lands, rents, tenements, hereditaments, goods, chattels, and effects of what kind, nature, or quality soever, to an amount not exceeding in the whole fifteen millions of dollars, including the amount of the capital stock aforesaid; and the same to sell, grant, demise, alien, or dispose of; to sue and be sued, plead and be impleaded, answer and be answered, defend and be defended, in courts of record, or any other place whatsoever, and also to make, have, and use a common seal, and the same to break, alter, and renew at their pleasure; and also to ordain, establish, and put in execution such by-laws, ordinances, and regulations as shall seem necessary and convenient for the government of the said corporation, not being contrary to law or to the constitution thereof (for which purpose general meetings of the stockholders shall and may be called by the directors, and in the manner hereinafter specified), and generally to do and execute all and singular acts, matters, and things which to them it shall or may appertain to do; subject nevertheless to the rules, regulations, restrictions, limitations, and provisions hereinafter prescribed and declared.

SEC. 4. *And be it further enacted*, That for the well ordering of the affairs of the said corporation there shall be twenty-five directors, of whom there shall be an election on the first Monday of January in each year by the stockholders or proprietors of the capital stock of the said corporation and by plurality of the votes actually given; and those who shall be duly chosen at any election shall be capable of serving as directors by virtue of such choice until the end or expiration of the Monday of January next ensuing the time of such election and no longer. And the said directors at their first meeting after each election shall choose one of their number as president.

SEC. 5. *Provided always, and be it further enacted*, That, as soon as the sum of four hundred thousand dollars in gold and silver shall have been actually received on account of the subscriptions to the said stock, notice thereof shall be given, by the persons under whose superintendence the same shall have been made, in at least two public gazettes printed in the city of Philadelphia; and the said persons shall, at the same time in like manner, notify a time and place within the said city, at the distance of ninety days from the time of such notification, for proceeding to the election of directors; and it shall be lawful for such election to be then and there made; and the persons who shall then and there be chosen shall be the first directors and shall be capable of serving, by virtue of such choice, until the end or expiration of the Monday in January next ensuing the time of making the same, and shall forthwith thereafter commence the operations of the said bank, at the said city of Philadelphia: *And provided further*, That, in case it should at any time happen that an election of directors should not be made upon any day when pursuant to this act it ought to have been made, the said corporation shall not, for that cause be deemed to be dissolved; but it shall be lawful on any other day to hold and make an election of directors in such manner as shall have been regulated by the laws and ordinances of the said corporation: *And provided, lastly,* That, in case of the death, resignation, absence from the United States, or removal of a director by the stockholders his place may be filled up by a new choice for the remainder of the year.

SEC. 6. *And be it further enacted,* That the directors for the time being shall have power to appoint such officers, clerks, and servants under them, as shall be necessary for executing the business of the said corporation, and to allow them such compensation for their services respectively as shall be reasonable; and shall be capable of exercising such other powers and authorities for the well governing and ordering of the affairs of the said corporation as shall be described, fixed, and determined by the laws, regulations, and ordinances of the same.

SEC. 7. *And be it further enacted,* That the following rules, restrictions, limitations, and provisions, shall form and be fundamental articles of the constitution of the said corporation, viz:

I. The number of votes to which each stockholder shall be entitled shall be according to the number of shares he shall hold, in the proportions following: That is to say, for one share, and not more than two shares, one vote; for every two shares above two, and not exceeding ten, one vote; for every four shares above ten, and not exceeding thirty, one vote; for every six shares above thirty, and not exceeding sixty, one vote; for every eight shares above sixty, and not exceeding one hundred, one vote; and for every ten shares above one hundred, one vote. But no person, copartnership, or body politic shall be entitled to a greater number than thirty votes. And, after the first election, no share or shares shall confer a right of suffrage, which shall not have been holden three calendar months previous to the day of election.

Stockholders actually resident within the United States, and none others, may vote in election by proxy.

II. Not more than three-fourths of the directors in office, exclusive of the president, shall be eligible for the next succeeding year; but the director who shall be president at the time of an election may always be reelected.

III. None but a stockholder, being a citizen of the United States, shall be eligible as a director.

IV. No director shall be entitled to any emolument unless the same shall have been allowed by the stockholders at a general meeting. The stockholders shall make such compensation to the president for his extraordinary attendance at the bank as shall appear to them reasonable.

V. Not less than seven directors shall constitute a board for the transaction of business, of whom the president shall always be one, except in case of sickness, or necessary absence, in which case his place may be supplied by any other director, whom he, by writing under his hand, shall nominate for the purpose.

VI. Any number of stockholders, not less than sixty, who together shall be proprietors of two hundred shares or upwards, shall have power at any time to call a general meeting of the stockholders, for purposes relative to the institution, giving at least ten weeks' notice, in two public gazettes of the place where the bank is kept, and specifying, in such notice, the object or objects of such meeting.

VII. Every cashier or treasurer, before he enters upon the duties of his office, shall be required to give bond, with two or more sureties, to the satisfaction of the directors, in a sum not less than fifty thousand dollars, with condition for his good behavior.

VIII. The lands, tenements, and hereditaments which it shall be lawful for the said corporation to hold shall be only such as shall be requisite for its immediate accommodation in relation to the convenient transacting of its business, and such as shall have been bona fide mortgaged to it by way of security, or conveyed to it in satisfaction of debts previously contracted in the course of its dealings, or purchased at sales upon judgments which shall have been obtained for such debts.

IX. The total amount of the debts which the said corporation shall at any time owe, whether by bond, bill, note, or other contract, shall not exceed the sum of ten million dollars over and above the moneys then actually deposited in the bank for safe keeping, unless the contracting of any greater debt shall have been previously authorized by a law of the United States. In case of excess, the directors under whose administration it shall happen shall be liable for the same, in their natural and private capacities; and an action of debt may, in such case, be brought against them, their or any of their heirs, executors, or administrators, in any court of record of the United States, or of either of them, by any creditor or creditors of the said corporation, and may be prosecuted to judgment and execution, any condition, covenant, or agreement to the contrary notwithstanding. But this shall not be construed to exempt the said corporation, or the lands, tenements, goods, or chattels of the same, from being also liable for and chargeable with the said excess. Such of the said directors who may have been absent when the said excess was contracted or created, or who may have dissented from the resolution or act whereby the same was so contracted or created, may respectively exonerate themselves from being so liable by forthwith giving notice of the fact, and of their absence or dissent, to the President of the United States, and to the stockholders, at a general meeting, which they shall have power to call for that purpose.

X. The said corporation may sell any part of the public debt whereof its stock shall be composed, but shall not be at liberty to purchase any public debt whatsoever; nor shall directly or indirectly deal or trade in anything, except bills of exchange, gold or silver bullion, or in the sale of goods really and truly pledged for money lent and not redeemed in due time, or of goods which shall be the produce of its lands. Neither shall the said corporation take more than at the rate of six per centum per annum for or upon its loans or discounts.

XI. No loan shall be made by the said corporation for the use or on account of the Government of the United States to an amount exceeding one hundred thousand dollars, or of any particular State to an amount exceeding fifty thousand dollars, or of any foreign prince or state, unless previously authorized by a law of the United States.

XII. The stock of the said corporation shall be assignable and transferable, according to such rules as shall be instituted in that behalf, by the laws and ordinances of the same.

XIII. The bills obligatory and of credit, under the seal of the said corporation, which shall be made to any person or persons, shall be assignable by indorsement thereupon under the hand or hands of such person or persons, and of his, her, or their assignee or assignees, and so as absolutely to transfer and vest the property thereof in each and every assignee or assignees successively, and to enable such assignee or assignees to bring and maintain an action thereupon in his, her, or their own name or names. And bills or notes which may be issued by order of the said corporation, signed by the president and countersigned by the principal cashier or treasurer thereof, promising the payment of money to any person or persons, his, her, or their order or to bearer, though not under the seal of the said corporation, shall be binding and obligatory upon the same, in the like manner, and with the like force and effect, as upon any private person or persons, if issued by him or them, in his, her, or their private or natural capacity or capacities; and shall be assignable and negotiable, in like manner, as if they were so issued by such private person or persons—that is to say, those which shall be payable to any person or persons, his, her, or their order, shall be assignable by indorsement, in like manner, and with the like effect, as foreign bills of exchange now are; and those which are payable to bearer shall be negotiable and assignable by delivery only.

XIV. Half-yearly dividends shall be made of so much of the profits of the bank as shall appear to the directors advisable; and once in every three years the directors shall lay before the stockholders, at a general meeting, for their information, an exact and particular statement of the debts which shall have remained unpaid after the expiration of the original credit, for a period of treble the term of that credit; and of the surplus of profit, if any, after deducting losses and dividends. If there shall be failure in the payment of any part of any sum, subscribed by any person, copartnership, or body politic, the party failing shall lose the benefit of any dividend which may have accrued prior to the time for making such payment and during the delay of the same.

XV. It shall be lawful for the directors aforesaid to establish offices wheresoever they shall think fit, within the United States, for the purposes of discount and deposit only, and upon the same terms and in the same manner as shall be practiced at the bank; and to commit the management of the said offices and the making of said discounts to such persons, under such agreements and subject to such regulations as they shall deem proper, not being contrary to law or to the constitution of the bank.

XVI. The officer at the head of the Treasury Department of the United States shall be furnished, from time to time, as often as he may require, not exceeding once a week, with statements of the amount of the capital stock of the said corporation and of the debts due to the same; of the moneys deposited therein; of the notes in circulation, and of the cash in hand; and shall have a right to inspect such general accounts in the books of the bank as shall relate to the said statements: *Provided*, That this shall not be construed to imply a right of inspecting the account of any private individual or individuals with the bank.

SEC. 8. *And be it further enacted*, That if the said corporation, or any person or persons for or to the use of the same, shall deal or trade in buying or selling any goods, wares, merchandise, or commodities whatsoever, contrary to the provisions of this act, all and every person and persons, by whom any order or direction for so dealing or trading shall have been given, and all and every person and persons who shall have been concerned as parties or agents therein, shall forfeit and lose treble the value of the goods, wares, merchandises, and commodities in which such dealing and trade shall have been; one-half thereof to the use of the informer and the other half thereof to the use of the United States, to be recovered with costs of suit.

SEC. 9. *And be it further enacted*, That if the said corporation shall advance or lend any sum for the use or on account of the Government of the United States to an amount exceeding one hundred thousand dollars; or of any particular State to an amount exceeding fifty thousand dollars; or of any foreign prince or state (unless previously authorized thereto by a law of the United States), all and every person and persons, by and with whose order, agreement, consent, approbation, or connivance, such unlawful advance or loan shall have been made, upon conviction thereof, shall forfeit and pay, for every such offense, treble the value or amount of the sum or sums which shall have been so unlawfully advanced or lent, one-fifth thereof to the use of the informer and the residue thereof to the use of the United States, to be disposed of by law and not otherwise.

SEC. 10. *And be it further enacted*, That the bills or notes of the said corporation, originally made payable, or which shall have become payable on demand, in gold or silver coin, shall be receivable in all payments to the United States.

SEC. 11. *And be it further enacted*, That it shall be lawful for the President of the United States at any time or times, within eighteen months after the first day of April next, to cause a subscription to be made to the stock of the said corporation, as part of the aforesaid capital stock of ten million dollars, on behalf of the United States, to an amount not exceeding two million dollars, to be paid out of the moneys which shall be borrowed by virtue of either of the acts, the one entitled "An act making provision for the debt of the United States;" and the other entitled "An act making provision for the reduction of the public debt;" borrowing of the bank an equal sum, to be applied to the purposes, for which the said moneys shall have been procured, reimbursable in ten years, by equal annual installments, or at any time sooner, or in any greater proportions, that the Government may think fit.

SEC. 12. *And be it further enacted*, That no other bank shall be established by any future law of the United States during the continuance of the corporation hereby created, for which the faith of the United States is hereby pledged.

Appendix B.

Ordinance and By-Laws for the Regulation of the Bank of the United States.

Section I. The charter of incorporation granted to the Bank of the United States, amongst other rights, privileges, and abilities therein conveyed, having empowered the stockholders at general meetings, legally convened, to make, ordain, establish, and put in execution, such by-laws, ordinances, and regulations, as shall seem necessary and convenient for the government of the said corporation: *Be it ordained*, By the president, directors, and company of the Bank of the United States—

Sec. II. That the bank shall be open for the transaction of business every day in the year (Sundays, Christmas Day, and the Fourth of July excepted) during such hours as the board of directors shall deem advisable.

Sec. III. That the books and accounts of the bank shall be kept in dollars and cents, and shall be regularly balanced on the first Mondays in January and July in each year, when the half-yearly dividends shall be declared and published in at least four of the public newspapers.

Sec. IV. That the bank shall take charge of the cash of all those who choose to place it there (free of expense) and shall keep it subject to their order, payable at sight; and shall receive deposits of ingots of gold, bars of silver, wrought plate, or other valuable articles of small bulk, in the same manner, and return them on demand of the depositor.

Sec. V. That the bank shall receive all specie, coins according to the rates and value that have been or shall hereafter be established by Congress.

Sec. VI. That until offices of discount and deposit shall be established, there shall be at least two days in every week, when meetings of the board of directors shall be assembled. Discounts shall be made at a rate not exceeding 6 per cent per annum on notes or bills of exchange that have not more than sixty days to run, and with at least two responsible names, and under such modifications, as the board of directors in their discretion shall deem satisfactory and expedient.

Sec. VII. That the president shall have power to convene the directors on special occasions, and with the approbation of the board of directors, to assemble and affix the seal of the corporation to all conveyances or other instruments, and sign the same in behalf of the corporation—the said seal shall always remain in the custody and safekeeping of the president.

Sec. VIII. That a committee of the board, consisting of at least three members to be elected monthly by ballot, shall visit the vaults in which the cash and other effects shall be deposited at least once in every month, and make an inventory of the same, to be compared with the books, in order to ascertain whether they perfectly agree therewith.

SEC. IX. That no notes of the bank shall be struck or signed, or bank paper made, but by the direction of the board.

SEC. X. That in case the board of directors shall at any time make a dividend exceeding the profits of the bank and thereby diminish capital stock, the members assenting thereto shall be liable in their several individual capacities for the amount of the surplus so divided.

SEC. XI. That the board of directors shall, previous to the first day of December in every year, call a general meeting of the stockholders to be assembled, within three days after each annual election.

SEC. XII. That the board of directors are hereby empowered to demand and receive from the commissioners appointed to superintend the subscriptions to the capital stock of the bank, all moneys which have been paid to the said commissioners on account of the first specie payment, together with the original book of subscription.

SEC. XIII. That the board of directors are hereby authorized to ascertain and determine in what manner the remaining portions of the capital stock, due on the shares subscribed, consisting of specie and public debt, shall be paid and received, and they are hereby further authorized and empowered to receive into their possession the certificates of said public debt, and demand and receive by their president, or in such other manner as they shall think proper, the interest that shall accrue and become due on the same, and to give receipts therefor in behalf of the said corporation.

SEC. XIV. That the board of directors are hereby authorized and empowered to fix and establish requisite, safe, and convenient forms for transferring bank stock; for receiving half-yearly dividends; for conveying a right to proxies to represent stockholders at any general meeting after the second Monday of January next; for the certificates of capital stock of the bank; for the circulating and post notes of the bank; and for the oath or affirmation of the officers of the bank, previous to their entering on the execution of their respective duties.

SEC. XV. That the board of directors are hereby authorized and empowered to establish a common seal, with suitable devices; to ascertain and mark out the various duties and employments of the officers, clerks, and servants of the bank, and to direct them accordingly—as well as to determine the amount of securities they shall respectively give for the faithful discharge of their duties; to assign to the president such additional functions as are not already designated by law; and to reissue or renew at their discretion the notes in circulation.

SEC XVI. That the directors shall have power to make loans to the Government of the United States, or of any State, to such extent, and on such terms as they shall deem expedient, not contrary to law; provided that a board consisting of not less than a majority of the whole number of directors shall be necessary to decide in all such cases.

Sec. XVII. That the board of directors are hereby authorized to lease or hire for a term not exceeding two years such suitable buildings as the administration of the affairs of the bank may require.

Sec. XVIII. That in case it shall happen that an election of directors shall not be made at a meeting of the stockholders for that purpose on the first Monday of January next, and on said day in each succeeding year, it shall be lawful for the stockholders to adjourn said meeting to any future day within five days from the said first Monday of January, and at said adjournment to make, complete, and finish said election.

Sec. XIX. That the board of directors are hereby empowered to form and establish all other rules and regulations that they may deem necessary for the interior management of the bank.

On motion, resolved, That it is the sense of the stockholders of the Bank of the United States, that the president and directors should turn their immediate attention to the establishment of offices of discount and deposit at such places in the United States as the interest and safety of the institution will admit.[a]

Attest:

Edward Fox, *Secretary.*

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[a] Dunlap's American Daily Advertiser, November 14, 1791.

APPENDIX C.

QUOTATIONS OF BANK STOCKS..

Date.	Bank of the United States.	Bank of North America.	Bank of Pennsylvania.	Bank of Philadelphia.
August 22, 1792	150	130		
November 6, 1792	142	133		
January 3, 1793	135	130		
January 4, 1794	110	120	108	
January 2, 1795	126	140	126	
January 16, 1795	145	145	140	
February 15, 1796	130	146	130	
February 14, 1797	112	145	113	
January 10, 1798	[a]123	150	124	
January 1, 1800	124	150	124	
December 20, 1800	139	153	134	
January 17, 1801	133	147	126	
August 2, 1802	153	151	141	
January 1, 1803	147½	154	134	
March 10, 1804	148	143	125	113
May 18, 1805	132	135	130	96
January 4, 1806	131	131½	128½	104
December 21, 1807	123½	145	134	123
January 26, 1808	119	145	134	123
May 21, 1808	130	140	140	127
January 5, 1809	127½	145	145	136
January 22, 1810	127	147	141	136
April 2, 1810	111	146	140	133
December 19, 1810	115	149½	137	129
January 15, 1811	[a]113			
January 28, 1811	107			
April 2, 1811	90			
December 30, 1811	95½			
April 9, 1812	92			
June 8, 1812	94			

[a] Dividend off.

APPENDIX D.

DIVIDENDS.

Year.	Bank of the United States.		North America.	Philadelphia.	Pennsylvania.
	January	July.			
	Per cent.	*Per cent*	*Per cent*	*Per cent.*	*Per cent.*
1787	-----	-----	6	-----	-----
1788	-----	-----	6	-----	-----
1789	-----	-----	7	-----	-----
1790	-----	-----	7	-----	-----
1791	-----	-----	7	-----	-----
1792	-----	4	15	-----	-----
1793	4	3⅝	13	-----	-----
1794	3⅞	4	12	-----	-----
1795	4	4	12	-----	-----
1796	4	4	12	-----	
1797	4	4	12	-----	
1798	5	4	12	-----	
1799	4	4	12	-----	
1800	4	4	10	-----	
1801	6	4	10	-----	[a] 8
1802	4½	4½	10	-----	
1803	4½	4	9½	-----	
1804	4½	4	9	8	
1805	4	4	9	8	
1806	4	4	9	8	
1807	6	4	9	8	
1808	4	4	9	8	-----
1809	4	4	9	8	-----
1810	4	4	9	8	-----
1811	4	4	-----	-----	-----

[a] The third dividend was 10 per cent; fourth, fifth, and sixth, 9½ per cent; thirteenth to nineteenth, 9 per cent.

Appendix E.

Records and Accounts of the First Bank of the United States.

The scantiness of data relating to the first Bank of the United States, especially of reports of its condition, has long been regretted by historians and investigators. Though there are indisputable evidences that the bank made frequent reports to the Treasury Department, only two apparently have been preserved. The Treasury officials now in charge of the records and archives share the opinion expressed in Professor Dunbar's subjoined article that if any of these reports were in existence at the time of the fires in 1814 and 1833 they were probably destroyed.

In undertaking a study of the first Bank of the United States, however, it was hoped that a diligent search might reveal some old records, diaries, or other data, which would throw additional light upon its methods and practices. It was thought that the papers and documents of the bank, after its business and the bank building were purchased by Stephen Girard, might have passed into his possession and have been preserved either among his private papers, now in the possession of the Girard estate, or among the old records of the Girard National Bank, which was organized as a state bank in 1832 to fill the financial gap caused by Girard's death and the liquidation of his bank. These possible sources, however, proved fruitless. The Girard National Bank has no records relating to the old bank; while the superintendent of the Girard estate, who is having Girard's papers classified and catalogued, believes that the collection contains no material of value on this subject.

Through the officers of the Pennsylvania Historical Society inquiry was made to ascertain whether any of the old bank records had passed into the possession of, and had been preserved by, descendants of Willing, Simpson, and others directly connected with the bank. This line of inquiry, too, proved unfruitful. A careful reading of the newspapers and pamphlets for the entire period of the bank's existence furnished considerable new material, especially for the first few years of its history. The old minute books and records of the Bank of North America, which were made accessible through the courtesy of President Michener, contained some valuable data, but this is the only bank which was contemporary with the first Bank of the United States whose records have yielded much material for this study. Extensive use has been made of the Finance folios in the American State Papers, as well as the works and writings of Hamilton, Gallatin, Jefferson, and other public men of the time.

Professor Dunbar's article on the "Accounts of the First Bank of the United States" follows:

"The first Bank of the United States was obliged by its charter to report its condition to the Treasury Department as often as required, not exceeding once a week. It is well known that Mr. J. J. Knox, when Comptroller of the Currency, found that the existing records do not show that any formal reports were ever made. Two balanced statements were given to Congress by Mr. Gallatin, one in March, 1809, and the other in January, 1811; and it has sometimes been assumed that these were the only reports ever made.

"That Mr. Knox's search in the Treasury Department brought no reports to light proves but little. The Treasury Department, it will be recollected, was burned when Washington was occupied by the British forces in August, 1814; and it was burned again in March, 1833. The official statements made to Congress as to the documents and books lost and saved on these two occasions raise a presumption that any such reports, if in existence at the time of either conflagration, would not have been among the papers saved, the effort being made in both cases to save primarily what was needed for the current public service. The failure, therefore, to discover at the present time a set of papers, which even in 1814 had only an historical value, can not be regarded, under the circumstances, as having any weight.

"There are, however, many pieces of evidence scattered in the public documents tending to show that the bank was required by the Treasury Department to make frequent report of its condition, and that it did so in obedience to the law.

"The most complete account which we have is that which was sent to the House in January, 1811, as above stated, and is given in State Papers on Finance. (Vol. II, p. 468.) This statement, made in much detail, is said by Mr. Gallatin in the letter communicating it to be 'extracted from the latest returns received at this office from the bank.' It was then one of a series. The return of 1809 above referred to (ibid., p. 352), although a balanced account, is given in round numbers and has been stigmatized as an account 'trumped up;' but Mr. Gallatin's letter transmitting it states expressly that the amount of the principal items 'is taken on a medium'—that is, it is an averaged account, and no more 'trumped up' than the averaged accounts now published weekly by the clearing-house. Mr. Gallatin's language shows that he preferred to give an averaged account, because it better represented the ordinary condition of the bank than the actual figures at the date of his report; and, as the question before Congress related to a renewal of the charter, it was the ordinary condition of the bank which Congress most needed to understand. For the present purpose, however, the important point is that, in making a statement 'taken on a medium,' Mr. Gallatin probably had before him the various detailed statements of which this medium is the average. In one other instance we have direct evidence that an account of the bank was in possession of the Government. In Gallatin's Writings (Vol. I, p. 59), Jefferson writes to Gallatin, November 11, 1801, giving a comparative table of certain items in the accounts of the Bank of the United States and of banks in several of the principal cities. If we take the items relating to the Bank of the United States and arrange them in their proper form, we find that they make up an account as follows:

Liabilities.		Resources.	
Capital	$10,000,000	Discounts	$12,150,000
Undivided profits	40,000	Six per cent and advance to Government	5,460,000
Notes	5,200,000	Due from banks	1,450,000
Deposits:		Specie	5,000,000
Government	3,560,000		
Individual	5,240,000		
	24,040,000		24,060,000

"It is sufficiently evident that Jefferson in this case had a balanced account of the bank which he simplified by throwing off the thousands, this process causing the discrepancy which appears in the totals of debit and credit.

"Besides these references to other statements than those now known to exist, there are numerous significant allusions to be found in Gallatin's correspondence and in the debates in Congress upon the proposed renewal of the charter. Thus, in Gallatin's 'Writings' (Vol. I, p .80), we have Gallatin in June, 1802, comparing the condition of the Bank of Pennsylvania with that of the Bank of the United States. To cite only one passage from the debates, we find Mr. Finley, on April 30, 1810, saying in the course of his speech that 'the Secretary of the Treasury has, for the time being, had authority by law to inspect the directors of the bank, and did do it, and obtained weekly returns of its situation.' In Gallatin's communication to the House, January 10, 1811, in 'State Papers on Finance' (Vol. II, p. 460), there are significant references to 'the returns made to the Treasury,' and 'the official statements transmitted in conformity with * * * the charter,' and the like. And in Mr. Gallatin's well-known 'Considerations on the Currency and Banking System,' published in 1831, we find him making a general statement as to the proportion which the loans made and stocks owned by the bank bore to its capital for the whole of its existence—a statement which a man of his caution never made without full documentary evidence. In short, there is ample reason to believe that when the stockholders declared in their petition for a renewal of the charter, in April, 1808, ' that the confidence of the Government (was) founded upon a constant knowledge of the interior management and condition of the bank,' they told the truth. Indeed, it is inconceivable that they should have made this statement to a Congress in which their opponents had the majority, if there had been any possibility of a denial.

'That the accounts given to the Treasury Department were not made public, as they would be in our own day, is not surprising when we see the different views then commonly held as to giving publicity to such statements. For example, in Jefferson's letter of November, 1801, referred to above, it will be observed that he suggested that statements from the state banks should be generalized, and the total of the yearly average should be presented to Congress. 'It would give us,' he says, 'the benefit of their and of the public observations and betray no secret as to any particular bank.' And it will be recollected that at that period the Bank of England, on which the Bank of the United States was closely modeled, made no publication of its accounts, and that it was not until 1834 that even a quarterly statement was required to be made. In the earlier part of the century the public could learn nothing as to the condition of the bank, except the selected facts cautiously given out in parliamentary investigations. Mr. Tooke, in his evidence before the committee of 1832, in 'Parliamentary Documents,' 1831–32 (Vol. VI), described the accounts thus given of the cash held by the bank at some critical periods as 'mystical;' and some important witnesses, even in 1832, maintained that to give the bank accounts to the public, especially to state the amount of bullion held, might be a mischievous practice. It is not surprising then that the accounts of the first Bank of the United States down to 1811 were regarded as confidential. That under the seal of confidence they were regularly made from an early period and probably for the whole of the bank's existence seems to be more than probable." [a]

[a] Quarterly Journal of Economics, Vol. VI, p. 471.